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EUROPEAN NEWS

Diana Smith in Lisbon reports on worries about the country's nationalised industries and trade performance

Political impasse holds up economic progress in Portugal

DISPUTES between Portugal's Socialist Party (PSD) and Social Democrat Party (PSD), uneasy partners in the 18 month-old ruling coalition, are worrying Portugal's financial authorities. Friction caused by premature wrangling over strategy for the presidential elections, not due until late 1985, has led to a slackening in government economic action. It is felt that unless the political impasse ends rapidly, this year's strong improvement in the external accounts could falter.

Decisions on the size and structure of overscaled, financially-burdened public enterprises, and on legislation affecting banking and investment incentives should have been taken months ago. But tension between the two ruling parties—each of which blames the other for lack of forceful economic action—has again made the fragile economy vulnerable to fractious party politics.

Although the situation has not reached the disarray of late 1982 when bickering in the former ruling alliance between the PSD and Christian Democrats gravely hurt Portugal's creditworthiness, a recurrence of PSD pressures and quarrels is causing some concern.

Thanks to ruthless economic cooling from late 1983 and throughout 1984—too ruthless for some economists because it bred soaring unemployment and a 10 per cent drop in buying

power for Europe's lowest-paid workers—Portugal made an impressive turnabout in its external accounts. This pleased the International Monetary Fund (IMF), whose tough \$390m standby agreement with the Soares administration winds up next February.

The IMF is less pleased with persistent public overspending and the halfhearted correction in 1984 after an energetic start in 1983 of heavy subsidising of commodity prices at controversial cost to the taxpayer and treasury. The October 1983 agreement with the IMF promised drastic reduction of the weight and deficits of the funds

paying the subsidies. But subsidy cuts require a confident political stance.

Slack private consumption and healthy growth of exports, tourism and emigrant remittances reduced the balance of payments deficit on the current accounts by the end of August this year to \$504m—less than half deficit of \$1,340m recorded in August, 1983.

Sluggish imports and strong export growth produced a visible trade deficit in August, 1984, of \$1,560m, against an August, 1983, deficit of \$2,220m, with notable dynamism in footwear, textile and clothing that benefited

from the recovery in their traditional European markets. The authorities expect 1984 to end with a current accounts deficit of \$800m, the lowest since 1979 and \$400m less than the \$1,200m target agreed with the IMF.

In 1985 when some economic growth must be permitted after 18 restrictive months, some import recovery is expected. But since good export performance should be sustained, the authorities expect to end next year well within the current accounts deficit target agreed with the IMF of \$1bn.

This year's restrictions and a

dramatic drop in private sector investment shrank the Portuguese economy by 1.5 per cent to a gross domestic product of \$19.5bn. In 1985 the administration expects 3 per cent growth, although some officials think it may be difficult to generate growth of more than 2 per cent because of the depth of the 1984 depression and decrease in confidence.

Management of the foreign debt has been helped this year by generation of export income. The foreign debt by December 1984 should be \$15.4bn, a 7 per cent increase over 1983. The short-term ratio has dropped to 22 per cent, compared with a high of 33 per cent in early 1983. Debt repayment peaked at \$1.8bn in 1984; in 1985 repayments will decrease slightly to \$1.7bn. The authorities argue that, while the debt volume is high, the country can afford its servicing and, unlike 1983, it has not been necessary to sell any of the gold reserves.

By autumn 1983, emergency operations with the Bank for International Settlements (BIS), led Portugal to sell 49 tonnes of gold to repay \$700m of BIS loans. Having raised a total of \$1bn backed by gold from the BIS, the authorities expected to have to sell \$300m of gold in 1984 to pay the BIS

in full. However, finances picked up so much that the authorities could pay the BIS \$100m in cash not gold and the BIS agreed to roll over the remaining \$200m.

But to reduce the forecast State budget deficit for 1984 to 6 per cent of GDP, the budget included an expected Bank of Portugal profit from the \$300m gold sale.

Parliament—including coalition deputies—balked at being presented with a revised 1984 deficit of Esc 86bn (\$480m) over forecast mostly because of a hitherto-unknown gold deal or non-deal. And the governor of the Central Bank was furious at being blamed for the budget gap.

External successes have helped Portugal to strengthen her external image this year, but the core of the problem is still to be dealt with: How to manage, and what size to attribute to, public enterprises created by heater-skitter nationalisations almost ten years ago and thereafter used either as whipping boys or repositories for political clientele of successive governments with scant attention to bookkeeping.

Even the PSD which clamoured for public sector cuts has a large clientele holding senior jobs in the sector. Matching clamour with action is less easy under these circumstances.



Sr. Soares: gambled on lack of an alternative

Coalition partners review their agreements

PORTUGAL'S TWO ruling parties, the Socialist and Social Democrats (PSD), have begun a radical review of their coalition pact.

At a private meeting yesterday Sr. Mario Soares, the Socialist Premier, and Prof. Carlos Mota Pinto, the PSD deputy premier, agreed that their parties must re-examine the bases on which the coalition was founded 18 months ago.

If the examination provides enough common ground to prop up the coalition, the two parties will make a list of

measures needed urgently to correct Portugal's economic and administrative shortcomings.

The first appraisal by the two parties takes place today. Other meetings will follow. The coalition has been under severe strain recently because factions PSD plans insist on taking stands over presidential candidates for an election that is not due until the end of 1985.

Believing the Portugal's economic difficulties take precedence over party wrangles, the Socialists, displeased with divisive PSD tactics, have

demanded that the presidential issue be shelved for at least six months.

The Socialists hoped that the PSD leadership would approve a freeze on the issue at last weekend's meeting of the PSD national council. This was not done: instead the council concentrated on discussions of presidential candidates.

An exasperated Sr. Soares decided it was time to challenge Prof. Mota Pinto—whose grip on his disunited party is not strong—to an uncompromising review of

their relationship.

Sr. Soares gambled on the lack of real alternative to this coalition to win his point and force the PSD to commit itself more strongly to stable government.

The political crisis coincides with a low point in Portugal's negotiations for membership of the European Community, on whose success Sr. Soares has staked his career. His fight to push the sagging coalition back into shape is backed by his own party, which is far more coherent than the PSD.

Soviet defence spending to rise

By Patrick Cockburn in Moscow

THE SOVIET parliament yesterday endorsed the Soviet Union's budget and plan for 1985 which includes a sharp increase in annual defence spending by 12 per cent.

The real Soviet military budget is believed to be much higher than that announced and has been static in recent years. But even U.S. estimates, which put defence expenditure at 13.14 per cent of Soviet gross national product, say that military spending in Moscow has not kept pace with President Reagan's high defence budgets.

The Soviet leadership seems to have kept the rise in its military budget down to some 2 per cent a year since 1976, rising to an estimated 2.8 per cent in 1983.

The increase announced yesterday appears to be an indication that the Soviet leaders are conscious of the degree to which Washington has increased its outlays on defence. Soviet military leaders, notably Mikhail Gorbachev, the former chief of the General Staff, have stressed the need to keep up with the U.S. in the development of high technology conventional weapons.

Mr. Nikolai Baibakov, chairman of the State Planning Committee told the Supreme Soviet that industrial production would rise by 4.4 per cent this year—or 1 per cent more than the plan.

Labour productivity is also expected to increase by 4 per cent. This is a key indicator for the economy given the very slow growth of the labour force. Next year 96 per cent of the increase in industrial output is to come from greater labour productivity, Mr. Baibakov said.

Oil production this year is expected to be 615.6m tonnes or 8m tonnes below target. In 1985 Mr. Baibakov said that oil output should rise by 2 per cent to 628m tonnes.

The shortfall in oil output may be because of well publicised failure of enhanced recovery techniques in West Siberia. Maintaining oil production while investing heavily in gas and nuclear power is at the centre of current planning. Development of the gas fields seems to have proceeded much more satisfactorily. This is expected to increase by 8 per cent over 1984 to reach a total of 632m cubic metres.

No figures were given for grain output this year, estimated to total only 170m tonnes, but Mr. Baibakov said that the failure to reach the planned targets for agricultural output under the present five-year plan came "chiefly because of extremely unfavourable weather conditions."

The plan next year calls for industrial output to rise by 3.5 per cent and national income by 3.5 per cent.

Chernenko spells out UK missile offer

By Our Moscow Correspondent

THE SOVIET leadership has assured Mr. Nigel Farage, the British Labour Party leader who is visiting Moscow, that they are prepared to dismantle one SS-20 missile pointing at Britain for every Polaris missile dismantled on the British side. They would also be prepared to remove and dismantle an SS-20 or SS-25 missile based in Eastern Europe for every cruise missile removed from Britain.

The Soviet offer, made by Mr. Konstantin Chernenko, the Soviet President, reflects in a number of ways a proposal originally put forward by the late Soviet President Mr. Yuri Andropov in 1982.

But President Chernenko has now spelled out the new offer more carefully and the Soviet proposal is bound to carry more weight because it is made to the leader of a Labour Party pledged to unilateral disarmament. Mr. Andropov's offer was originally made to Britain and France.

The meeting of the Labour leader with President Chernenko and other senior Soviet officials has underlined the degree to which the Soviet Union has shifted from its previous conditions on talks with the U.S. The removal of cruise missiles, though likely to be a Soviet demand, is not seen as an obstacle to talks about talks between Mr. Andropov, the Soviet Foreign Minister, and Mr. George Shultz, the U.S. Secretary of State.

Ian Davidson adds: A policy of "sustained engagement" in the management of East-West relations, through more frequent dialogue and more frequent summit and sub-summit meetings, has been recommended by a panel of distinguished former western political leaders under the auspices of the Aspen Institute.

Their report, Managing East-West Conflict, urges early talks to control anti-satellite weapons and to make sharp reductions in nuclear warheads.

Yugoslavia set to accept IMF 1-year credit

By Aleksandar Lebl in Belgrade

THE YUGOSLAV Government is now likely to accept a one-year standby arrangement with the International Monetary Fund after the present agreement expires at the end of March.

Mr. Zivorad Kovacevic, a member of the Federal Cabinet, told parliament yesterday that creditor governments had made rescheduling of the debt maturing between 1985 and 1990 conditional on a new IMF standby agreement being reached.

An IMF team has been in Belgrade for the past 10 days discussing details of a new standby agreement and the multi-year rescheduling agreement, which the Yugoslav Government has been seeking.

Mr. Kovacevic said it was doubtful whether the rescheduling agreement could be completed by the end of 1984, indicating that there are still difficulties to be overcome in the negotiations. If agreement could not be achieved by year's end, Mr. Kovacevic said, a "standstill period" would be needed before Yugoslavia could meet its commitments.

The Government had prepared a fallback position in the case no agreement acceptable to Yugoslavia could be attained. This alternative would not only be unfavourable to Yugoslavia's own economic development, it would also not correspond to the interests of Yugoslavia's creditors, Mr. Kovacevic said.

But Belgrade would put the alternative into effect only if forced to do so.

At a meeting in Geneva on Monday western creditor governments repeated their standpoint that rescheduling of Yugoslav debts hinged on a preliminary agreement with the IMF.

Mr. Kovacevic told parliament yesterday that creditor governments did not appear to be familiar with multi-year arrangements, implying that there was still some reluctance on their part to agree to the long-term rescheduling sought by Yugoslavia.

Strong private sector urged

PRESIDENT Veselin Djuranovic of Yugoslavia called for a stronger private sector in the communist country and criticised "dogmatic" opposition to free enterprise, the state-run Tanjug news agency reported yesterday.

Support of the private sector, or "small economy" was needed to reduce unemployment, Mr. Djuranovic was quoted as saying. He said about 950,000 people—13 per cent of the workforce—were looking for a job.

There is disagreement within the party and the Government on how to solve the country's economic woes. Hardliners advocate even tighter state controls on the economy, while liberals seek less rigidity.

Mr. Djuranovic's comments were the highest-level public appeal to date for economic liberalisation, observers said. "According to analyses... there is room and need in our country (for the) small economy (to) develop so much that it can employ 1.5m people," he said. "But in many cases, a dogmatic approach to this issue is markedly present."

Yugoslavia imposes strict regulations on its private sector, limiting free enterprise to craftsmen, artisans, small shop owners and some other categories.

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EUROPEAN NEWS

Denmark blocks Community budget deal

BY QUENTIN PEEL IN BRUSSELS

THE UNFINISHED business of imposing budgetary discipline on EEC spending remained unfinished yesterday, when Denmark blocked last-minute changes designed to re-assure the European Parliament.

Nine of the ten foreign ministers meeting in Brussels were ready to go along with a deal which would have involved members of the Parliament in the effort to enforce spending control, particularly on the soaring farm budget.

Their failure to agree is not final—they are expected to have another attempt at agreement today—but it once again puts some doubts on how the last weeks of Community spending will be financed this year.

Both Britain and West Germany have made agreement on the plan for budgetary discipline a precondition of paying their shares of the ECU 100 (1984) cash shortfall in the European Commission's 1984 budget, and time is now running out for them to approve the payments.

Commission officials now fear that the whole issue may have to be referred to another summit meeting—next week's talks in Dublin—to be resolved, unless the Danes drop their objection.

The proposed amendments to the deal would provide for the Parliament to be consulted before the Council of Ministers fixes its annual "framework" or ceiling for Community spending—a move which is intended to keep the rate of growth of agricultural spending in particular below the growth rate of EEC revenues.

They were put forward yesterday by M. Gaston Thorn, President of the Commission, who described them as the minimum necessary to make the text acceptable both to the Commission and the Parliament.

MEPs have warned of an open and continuing conflict with the Council if they are not involved in budgetary control, as one of the legal arms of the Community's budgetary authority.

Six of the ministers at yesterday's meeting were prepared to push through the text unamended in the light of the Danish objections, although that might result in Parliament's refusal to co-operate any further in discussions on next year's budget. However, Italy, Belgium, Greece and Luxembourg held out for the changes to be made.

EEC-Spain steel accord talks open

By Ivo Dawson in Brussels

NEGOTIATIONS between the EEC and Spain on the integration of Spanish steel producers with the European Coal and Steel Community opened last night amid reports of some progress towards a deal.

Viscount Etienne Davignon, the EEC Industry Commissioner, made clear that while Madrid continues to give financial aid to its industry restrictions on Spanish steel sales will remain in force.

Spain, which is aiming at reducing its 22m tonne capacity by about 18 per cent to about 18m tonnes by 1988, wants an immediate tariff-free access to the Community market from accession.

As the talks continued, EEC foreign ministers were attempting to reach a common position on terms to be offered to Spain on fisheries.

The Netherlands and Belgium now appear to have accepted that the Spanish should face a 10-year period of total restrictions for its fleet before a negotiated integration can take place.

But Italy and Greece remain adamant that a less rigorous offer should be made. Some diplomats believe, however, that the Italians are trying to hold up a fisheries deal until a satisfactory conclusion to the internal Community wrangle over reform of the wine regime is agreed.

BRITISH-SPANISH AGREEMENT TO DISCUSS GIBRALTAR'S FUTURE

Sovereignty is key issue for Spain

BY TOM BURNS IN MADRID

THE FACT that the UK has agreed to discuss the sovereignty of Gibraltar is what matters to Spain in the agreement reached yesterday by Sir Geoffrey Howe, Britain's Foreign Secretary, and Sr Fernando Moran, the Spanish Foreign Minister.

The point was underlined in the statement issued by the Spanish Foreign Ministry. "For the first time in the history of the dispute," it said, "Britain expressly admits that the question of sovereignty will be broached in the (negotiating) process."

"What does sovereignty mean for the man in the street, does (Sir Joshua) Hassan now become a Spaniard?" asked a Spanish reporter at a Madrid Foreign Office briefing yesterday.

"No," said Sr Fernando Schwartz, Spain's external affairs spokesman. "The devolution of sovereignty means that Gibraltar becomes once more part of Spain."

Sr Schwartz, a former ambassador and a skilled diplomat, having neatly deflected the question, made the quotable point for Spanish national consumption: "The decolonisation process has now been opened."

For Gibraltarians ears he quoted his minister: "Sr Moran has said in the past that if Gibraltar was handed to him on a plate against the wishes of the Gibraltarians he would not want it."

Sovereignty was indeed the issue but Sr Schwartz was

reasonable about it: "We have never said that sovereignty would be effective in one, in two, in five years. We know it is a long term process."

What makes yesterday's Brussels agreement palatable for Spain, while the previous Lisbon declaration was not, is that the magic word sovereignty appears. The undertaking to discuss "the whole problem of Gibraltar," as Lisbon's statement had it in 1980 leaving each side to interpret what that meant, was not enough.

In addition the Brussels document actually spells out what reciprocal rights is all about. On this point, Sr Schwartz explained, the Lisbon declaration was also vague and was little more than a declaration of intent.

The upshot is that it is a good agreement and that Spain buys it wholeheartedly. There is no problem about selling it," said the Spanish diplomatic spokesman.

The Brussels statement does not apparently run the risk of being overturned by irate Spanish public opinion, charging the Government with a sell-out and an abject surrender, which four years ago torpedoed the Lisbon declaration.

Privately, however, Spanish officials are aware of the pitfalls that still lie ahead. Public opinion in Spain will, sooner rather than later, want progress on the actual devolution of Gibraltar with demonstrable gains and timetables in place of words and promises.

Gibraltar welcomes full opening of border

BY JOSEPH GARCIA IN GIBRALTAR

GIBRALTAR has generally sighed with relief at the full opening of the Spanish border, although there are reservations about discussions on sovereignty.

"We are not going to give way on the Spanish claim to sovereignty," said Sir Joshua Hassan, the Chief Minister, referring to the continuing British commitment to honour the wishes of the people of Gibraltar. He said that a democratic government in Spain should also have regard to Gibraltar's wishes.

Sir Joshua considers that the agreement is good for Gibraltar and will be fruitful for people on both sides of the frontier.

He stressed that the freedom of movement for Spanish workers will be subject to the transition period that will apply to Spain on conclusion of her own EEC negotiations. However, there will be community preference for Spaniards which in effect threatens the future job prospects of Moroccan workers, who replaced the

Spanish when the frontier was closed in June 1969. There are currently about 2,000 Moroccans in Gibraltar.

The mayor of the Spanish border town of La Línea, in welcoming the deal, emphasised the economic prosperity that could ensue from a return to normality at the frontier.

The removal by Spain of her 1967 prohibition on airspace in the Gibraltar region and the agreed co-operation on aviation matters, will doubtless improve prospects for the Gibraltar air-

field which was in the past a gateway to Spain's Costa del Sol. There is hope in Gibraltar that air lines between Gibraltar and the Spanish mainland will now be possible.

Proposed laws granting rights of establishment to self-employed non-Gibraltarians is now subject to a motion carried unanimously in House of Assembly on Monday which makes it clear to Britain that such rights are the sole prerogative of Gibraltar's parliament.

Nato, Warsaw Pact accept Stockholm talks structure

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

THE RECENT renewal of diplomatic contacts between Moscow and Washington has given a new impetus to the 35-nation European Disarmament Conference meeting in Stockholm to discuss measures for improving military security in Europe.

The Nato and Warsaw Pact states appear close to reaching agreement on a working structure for the conference proposed by Finland, one of the members of the group of neutral and non-aligned countries, which have been working hard to find common ground between the two alliances.

The conference, which began in January at a meeting attended by both Mr George Shultz, the U.S. Secretary of

Bonn refuses to sign UN Law of the Sea convention

BY RUPERT CORNWELL IN BONN AND IAN HARGREAVES IN LONDON

WEST GERMANY has formally refused to sign the UN-sponsored Law of the Sea convention—but made clear that it will not oppose ratification by the European Community as a whole.

There is speculation that Britain may go for a similarly convoluted compromise when ministers discuss the matter in the next few days.

The other eight members of the Community have all either signed the convention or said they will do so by the deadline of December 9.

In all, 140 of the UN's 159 member states have signed, including the whole of Eastern Europe, with the exception of Albania. The main opponent of the convention is the Reagan

Administration, which regards the convention's proposals on deep-sea mining as a threat to the U.S. mining industry.

As expected the Bonn Cabinet vote confirmed the enduring split between the tiny Free Democrats (FDP), mainly in favour of signature, and the CDU/CSU alliance which is overwhelmingly opposed.

When the vote was taken, only Herr Hans-Dietrich Genscher, the FDP leader and Foreign Minister, and his party colleague Herr Hans Engelhardt, the Justice Minister backed Bonn's own adherence to the Convention.

The remaining 15 members of the Cabinet, including Chancellor Helmut Kohl and even Herr Martin Bangemann, the

FDP Economics Minister, voted against.

West German hostility to the agreement—like that of the U.S.—stems from its dislike of provisions whereby seabed mining rights would be shared out, unjustly in Bonn's view, between developing and industrialised countries.

However, Herr Genscher argued unavailingly to the last that this drawback was more than balanced by the need not to antagonise Third World countries, and to preserve a common front of the EEC.

That last consideration has partly at least now been met by Bonn's acquiescence in ratification of the convention by the Community. Both the European Commission and the European

Parliament support the convention.

Herr Peter Boerisch, the Government spokesman, said last night that apart from the seabed mining clauses, the convention was to be welcomed. Moreover, despite the Cabinet's decision, West Germany will go ahead with plans for the international court of marine law, due to be set up in Hamburg.

It is not clear, however, what rights to participation in the convention's institutions will be available to countries which refuse direct signature but are members of supranational bodies which support the convention.

A paper published in London yesterday by the World Development Movement argues that

Britain must sign the convention in order to help shape detailed policies on seabed mining and to benefit from other provisions, such as navigation rights.

For Britain to boycott the convention, along with the U.S., would hand a major propaganda tool to the Soviet Union, which the paper says has already started to pursue bilateral talks with developing countries for co-operation in seabed mining under the terms of the UN convention.

"The Law of the Sea—a choice between anarchy and order," David Ward, World Development Movement, Bedford Chambers, Covent Garden, London, WCE 8BA. Price 50p.

France to press ahead with military satellite

By David Marsh in Paris

FRANCE IS making clear its willingness to go ahead on its own with building a military observation satellite for the early 1990s in the wake of failure to agree with West Germany over specifications for an earlier-jointed joint spy satellite project.

Joint Franco-German studies into a more advanced satellite using radar detection, which could eventually be launched in the late 1980s, will continue in spite of shelving of any idea of more immediate co-operation.

But the downgrading of the observation project, which was first announced six months ago by President François Mitterrand and Chancellor Helmut Kohl, none the less adds, up to an important setback for European collaboration over the military use of space.

France has for several years been making technical studies into a high-resolution military satellite. Samro, based on optical instruments already developed for the Spot civilian remote sensing satellite planned to be launched next year.

West Germany, however, has made clear its view however, that the optical technology could be outmoded by the 1990s. At the latest Franco-German summit in Bad Kreuznach at the end of last month, Bonn insisted on the need for a more sophisticated and costly radar-based craft. This would allow surveillance in all-weather conditions and at night.

A senior French aerospace official who has played a key role on Samro design work says the two sides are "far apart." According to Defence Ministry officials, France, however, is sticking to its view that Samro, although based on technology which is now several years old, is still of military value. They point out that American and Russian spy-craft use high-resolution optical equipment and that radar detection by satellite is in a highly experimental phase.

Samro is designed not only to give France information on world trouble spots such as the Middle East but also to help target the country's nuclear forces.

France's lack of independent satellite surveillance has made it reliant, like Britain and other western countries, on the U.S. for sensitive information in times for foreign crises.

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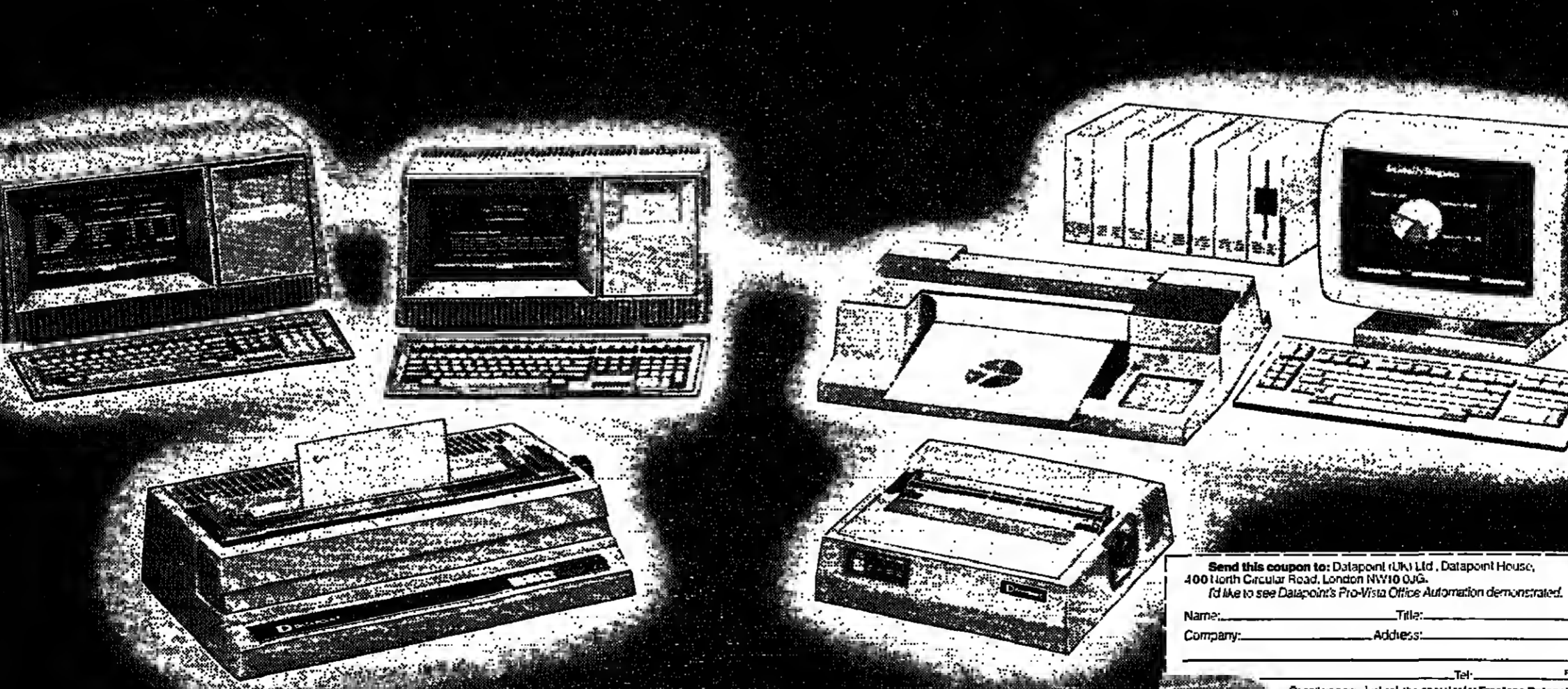
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OVERSEAS NEWS

Moslem group takes responsibility for UK diplomat's death

By JOHN ELLIOTT IN NEW DELHI

A GROUP calling itself the Revolutionary Organisation of Socialist Moslems yesterday claimed responsibility for killing Mr Percy Norris, British Deputy High Commissioner, in Bombay.

A man speaking Arabic made the claim in a telephone call to an international news agency in London. He said he was speaking from Bucharest.

The same group claimed responsibility for shooting dead the British Council representative in Athens, Mr Kenneth Whitty, on March 28 this year. The caller said the British authorities had not responded to their previous warnings to "stop their aggressive interventions and their detention and torture of fighters."

The caller said Mr Norris had been working for Scotland Yard under diplomatic cover and had close links with the U.S. Central Intelligence Agency (CIA). Indian police said last night they were hunting for two foreigners with "fair complexions" after Mr Norris was shot twice, in the heart and the head, at close range as he was driven in a distinctive white Rover 3500 to his office in the crowded commercial centre of Bombay.

He was dead on arrival at a city hospital. Mr Norris, aged 56, married with a son and daughter took over as the UK's senior diplomat in Bombay with the rank of Deputy High Commissioner a month ago. He would have specialised in Indo-

UK trade, and especially in Britain's involvement in India's Bombay High oil and gas field. He most recently served in Dubai.

There were hardly any eyewitnesses to the shooting and the Indian chauffeur of Mr Norris's car, who has driven British diplomats for 25 years, is not believed to have seen the attackers.

Mr Julio Ribeiro, Bombay police commissioner, said that four foreign-made shells fired by a powerful 9mm pistol were found.

Security protection provided by the Indian Government was immediately increased throughout the country for top UK diplomats and at British offices including those of the BBC and British Airways.

Protection was also provided for the England cricket team which starts its first Test match against India in Bombay today. Born in April 1928, Mr Norris started his career in the colonial and the commonwealth relations offices serving in the Solomon Islands, Kuala Lumpur, Lagos and Brussels before being seconded in 1972 to the Department of Trade and Industry.

He was Consul and Commercial First Secretary in Philadelphia, the U.S., from 1975 to 1980 when he moved to a similar post in Dubai.

Sir Geoffrey Howe, British Foreign Secretary, described the shooting of Mr Norris as an "appalling crime."

1976: Mr Christopher Ewart-Biggs, British ambassador to Ireland, killed by Irish Republican guerrillas when a landmine went off under the car in which he was riding in suburban Dublin.

1978: Sir Richard Sykes, British ambassador to the Netherlands, a security expert, shot and wounded outside the embassy building in The Hague, probably by Irish guerrillas.

1984 (March): Mr Kenneth Whitty, first secretary at the British Embassy in Athens, killed by gunmen as he drove home from work. A left-wing Moslem group claimed responsibility.

1973: Sir Richard Sharples, Governor of Bermuda, shot dead in grounds of Government House.

1978: Ms Nora Murray, personal assistant to British military attaché in Washington, had her hand blown off by a letter bomb (similar bombs sent simultaneously to other British embassies, including those in Zaire, Portugal and France).

Australian Treasurer in pledge on spending

By Michael Thompson-Noel in Sydney

THE AUSTRALIAN Treasurer (Finance Minister), Mr Paul Keating yesterday fished out the trio of path-setting fiscal promises made by Mr Bob Hawke's Labor Government in the run-up to Saturday's general election, which Labor is expected to win easily.

Over its next term, said Mr Keating, the Government pledged that neither federal tax revenue nor the federal budget deficit would rise as a proportion of gross domestic product (GDP), and that government expenditure growth would not exceed the growth rate of the economy.

Promises such as these have no precedent in Australian elections, Mr Keating told a banking conference in Sydney. "No Government has ever before made such clear commitments covering future budgetary management."

Mr Keating said a prime aim of the Hawke Government had been to reduce the budget deficit, partly in case Australia's growing debt-servicing burden.

"Public debt interest this year is estimated in total at \$5.6bn (\$2.5bn), or 8.8 per cent of total commonwealth (federal) spending," said the Treasurer. "Ten years ago, public debt interest cost only \$587m, or less than 5 per cent of budget outlays."

Mr Keating said the 1983-84 budget deficit had been halved back from a prospective \$39.6bn to \$17.9bn, with a further reduction of \$1.2bn in the planned deficit for the current year. In turn, the Government had already promised that next year's deficit would be a smaller money amount than 1984-85's planned \$16.7bn.

In part, the Government is anxious to neutralise the claim by Mr Andrew Peacock, leader of the Opposition, that it is "the biggest-spending, high-taxing government in Australia's peacetime history."

Equally, its determination to curb expenditure, wind back the deficit and ease the debt-servicing burden highlights the Government's conservative policy approach, which is the key to Mr Hawke's grip on power.

Reginald Dale on the restoration of Washington's diplomatic links with Baghdad

U.S. moves to prise Iraq from Soviet grip

WITH THE official restoration of U.S.-Iraqi diplomatic relations this week, after a 17-year interruption, the Reagan Administration is having a hard job denying that it has "tilted" towards Baghdad in the four-year-old Iran-Iraq war.

As the Iraqi flag was ceremonially raised in Washington on Monday afternoon, a senior Administration official was vigorously insisting that nothing much had changed and that U.S. neutrality in the conflict was as strict as ever.

In a military sense at least, that is true. Washington remains firmly opposed to the supply of arms to either side—and does not intend to relent in favour of Iraq simply because of an exchange of ambassadors. The U.S. objective remains, as the State Department puts it, the earliest possible negotiated peace, preserving the "sovereignty and integrity" of both countries.

There is no doubt, however, that Iraq is very much in Washington's good books, while Iran is not, and that the Reagan Administration also sees a role for Iraq in its continuing and so far unsuccessful quest for progress towards a wider Middle East settlement.

U.S.-Iraqi relations, once exceedingly antagonistic, have progressively warmed since Washington cut off ties with Iran after the 1979-81 hostage crisis. In Washington's eyes, the last four years have seen Iraq moderating its attitudes towards Israel, and on the Middle East problem in general, as it sought to avoid isolation in the war.

Iraq, for its part, has welcomed Washington's efforts to "choke off" arms supplies to Iran from other western countries.

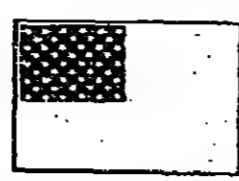
Washington also approves of Iraq's expressions of readiness to negotiate an end to the war, while Iran refuses to do so until President Saddam Hussein is removed from office in Baghdad.

Over the past three years, since its removal from Washington's embargo list of countries supporting international terrorism, Iraq has become a major market for U.S. agricultural products, mainly wheat and rice. It is now also allowed to buy American non-strategic industrial goods and civilian aircraft.

By contrast, Washington has constantly tightened the trade screws on Iran, which remains very definitely on the embargo list.

The U.S. interest in Iraq is also, however, more broadly strategic. There was considerable satisfaction in Washington this week when the visiting Mr Tariq Aziz, Iraq's deputy prime minister and foreign minister, said that one of the main reasons for renewing ties with the U.S. was to "balance" his country's close relationship with its chief patron and arms supplier, the Soviet Union.

Washington has encouraged Iraq's plans to build three new oil pipelines, through Turkey, Saudi Arabia and Jordan, to reduce its, and the west's, reliance on the Gulf oil route—although Mr Aziz said this week that the Jordan pipeline has been shelved.



The chief reason for the shelving appears to be Israeli reluctance to guarantee not to attack the pipeline, which would terminate close to Israeli territory at the Red Sea port of Agaba. Iraq had reportedly hoped that the U.S. would put pressure on Israel to ensure the pipeline's safety.

Israel, which destroyed the Iraqi nuclear reactor in a pre-emptive air strike in 1981, remains deeply suspicious of Baghdad. Washington, however, believes that Iraqi attitudes towards Israel have noticeably "evolved" in the past few years.

Administration officials this week pointed out that Iraq no longer regards itself as a "front line state" in the conflict with Israel; that it has supported Jordan's resumption of diplomatic relations with Egypt; that it favours closer relations

between Jordan and the Palestinian Liberation Organisation; that it acknowledged President Reagan's September 1, 1983, Middle East peace initiative; that it agrees that both Israel and the Palestinians must have "security"; and that President Hussein has said that no responsible Arab leader looks forward to the destruction of Israel.

The U.S. aim, accordingly, is to try to prise Iraq away from the tight grip of Moscow and progressively insert it into the group of moderate Arab states, including Egypt, Jordan and Saudi Arabia, to which Washington is looking to further the peace process.

At the same time, Washington hopes that this week's official reconciliation with Iraq will put political pressure on Iran. Iran could also benefit from improved relations with Washington, the Administration says, on two conditions: that it stops supporting international terrorism; and that it seeks a peace settlement with Iraq. Tilt or no tilt, the raising of the Iraqi flag in Washington was meant to be viewed in Tehran as much as in Baghdad.

French president—had drawn criticism in France because of this recent history in the same way as the recent visit by M Claude Cheysson, the French foreign minister, to Algeria for the celebrations of the Algerian national uprising against France caused an uproar.

French officials acknowledged that President Mitterrand's visit was "not easy." They also claimed they were not surprised by the harsh terms of President Assad's speech.

By contrast, President Mitterrand's reply to the Syrian leader was conciliatory and mild in tone. Some diplomatic observers said this differed sharply with the French President's outspoken remarks at the Knesset during his visit to Israel in 1982.

The controversy between the large French press corps following M Mitterrand and Syrian officials was finally resolved yesterday after the Syrians agreed not to continue to censor French coverage from Damascus.

President Mitterrand's state visit to Syria—the first by any

NORTH KOREA has thrown cold water on hopes that last Friday's shooting incident in the truce village of Panmunjom would not affect the progress of economic and other talks between North and South Korea.

In a letter to South Korea, Pyongyang unilaterally postponed economic talks that were scheduled to take place on December 5, citing what it called the "horrifying" atmosphere at Panmunjom and saying that the safety of the delegates could not be guaranteed.

It nonetheless held the door open for talks next year, saying it believed they should succeed, and called on South Korea to take unspecified steps to eliminate tension.

The North Korean security force in Panmunjom suffered a heavy beating in last Friday's fire fight after they pursued a Soviet defector across the military demarcation line.

North Korea said three of its soldiers died, and U.S. military sources say that at least four others were seriously wounded.

Two Koreas' economic talks postponed

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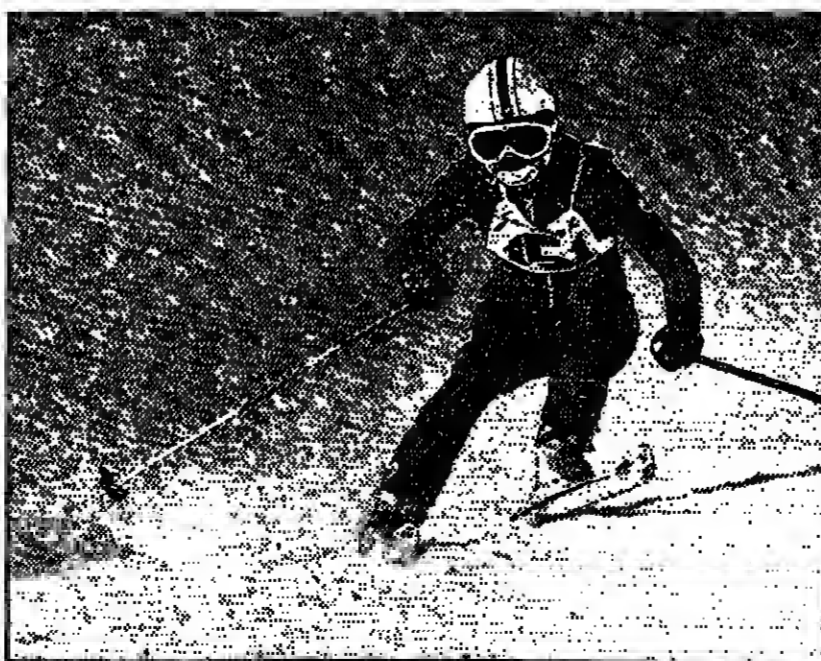
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BASF

IT SEEMED AS GOOD A PLACE AS ANY TO START LOOKING FOR NORTH SEA OIL.

1 9 6 5

A routine press conference in London, and an off-the-cuff remark by Shell UK's top geologist. Within minutes his comments are on every Editor's desk in Fleet Street, and by morning, being repeated the length and breadth of the country. While the sceptics scoff, the politicians pray. If what has been hinted at is indeed true, it will alter the economic and political fortunes of Britain for decades to come. Out in the North Sea, it is reported, Shell expects to strike oil.

1 9 6 6

The financial markets of London buzz with anticipation following Shell's discreet announcement of 'a significant gas discovery' 32 miles off the coast of East Anglia. Within two years Shell and other companies are bringing North Sea gas ashore, and with it a dramatic revival for the British gas industry. Plans are made for completely converting the National Grid to natural gas.

1 9 6 7

Armed with the latest seismic data, two geologists from Shell set up a small office in a tiny flat, over a bookshop, in the centre of Aberdeen. It seems as good a place as any from which to tackle their awesome task. They have been instructed to begin exploration of the vast and hostile waters of the northern parts of the North Sea.

1 9 7 1

At the northernmost offshore well yet drilled in the world, a veil of secrecy descends over Shell's activities. Communications with the mainland are suddenly coded through 'scrambler' phones. Information is rushed to Shell's scientists for prompt analysis. Until, as abruptly as they began, the exploration team cease all activity, seal the well, and are clearly seen making off for entirely new locations. A simple manoeuvre to ensure that nobody will guess what they have found.

1 9 7 2

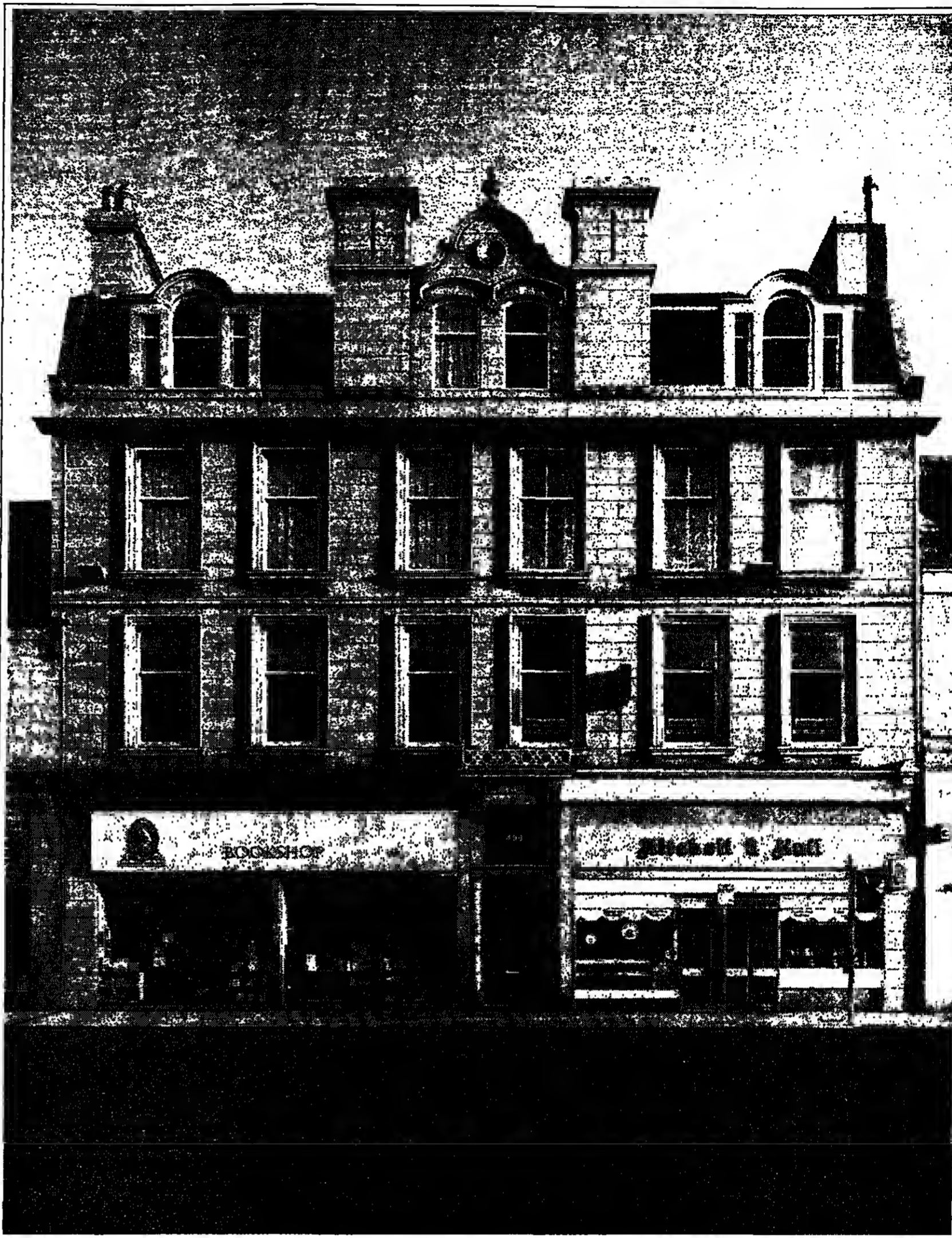
Shell proudly announces the discovery of what will prove to be a giant oil and gas find for Britain, the Brent Field.

1 9 7 4

The latest analysis of the Brent Field shows that the possible reserves of oil and natural gas liquids are double the original estimate. With Britain's oil deficit still around £3.8 billion, the news is welcome indeed.

1 9 7 6

The very high ratio of gas and gas liquids to oil being produced at Brent leads to a daring new scheme. A pipeline 278 miles long is to be laid on the seabed, to bring ashore the gas and gas liquids for separation. It will be the longest, and deepest, offshore pipeline ever built and is yet another challenge for British industry. Much of the technology required for North Sea development must be capable of operating in waves of up to 100 feet high, and in gusts of wind up to 100 miles per hour. In this instance, underwater cameras, side-scan sonars and computer systems are needed that will operate 600 feet beneath the sea.



1 9 7 8

The scheme is a success. Now it will be possible to bring the gas and gas liquids ashore for further use. The gas will be extracted and fed into the National Grid.

It would be possible to split the remainder into ethane, butane, propane and natural gasoline — important resources for industry. To do so, a highly advanced plant, costing many millions of pounds, will have to be specially built.

1 9 8 0

Work begins on the £400 million Gas Liquids Plant being built by Shell at Mossmorran, and on the 138 mile pipeline that will feed it. Soon Mossmorran will be the largest construction site in Europe.

1 9 8 2

Oil production from Brent approaches 310,000 barrels per day. This vast quantity helps transform Britain's oil deficit of yesteryear into a surplus of around £4.4 billion.

1 9 8 4

A VIP gathering to witness the opening of the new Mossmorran plant. Distinguished speakers touch on one or two environmental aspects of the plant, such as how it has been built tucked into the contours of the land so as to be as unobtrusive as possible. Also mentioned are the industrial aspects, such as how the hydrocarbons being produced will ultimately be used in the manufacturing of a thousand and one household items, from lipsticks to records.

But above all, it is noted that the opening of Mossmorran marks the culmination of the twenty years in which Shell, and the countless number of smaller British companies that have worked for her, have invested thousands of millions of pounds and great skill and ingenuity in the North Sea.

With excitement, we all look forward to the next twenty years.

YOU CAN BE SURE OF SHELL



AMERICAN NEWS

Senate Republicans set to choose majority leader

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

FIFTY-THREE Republican U.S. Senators gathered behind closed doors today in a huddle reminiscent of a papal conclave to elect a new leader to succeed the retiring, much respected, Senator Howard Baker of Tennessee.

The victor, as Senate majority leader in the Congress that convenes in January, will occupy one of the most powerful positions in Washington.

With two fewer Republican seats in the new Senate (down from 55 before this month's elections), and a slight increase in the weight of the moderate faction, the new leader will have a harder task keeping the party in line than Mr Baker. He will wield enormous influence over how far President Ronald Reagan succeeds in pushing his policies on the budget, defence and domestic and foreign affairs through Congress.

Five men have thrown their hats in the ring, but none of them claim to have the 27 votes needed to win on the first ballot. Under the rules, the contestant who wins the fewest votes in each ballot has to drop out of the next round, progressively narrowing the field.

Sen Robert Dole of Kansas, the powerful chairman of the Senate Finance Committee, has long been considered the front runner, but he admits his success is far from assured. Mr Dole, the beaten vice-presidential candidate in 1976, faces a campaign for senate re-election in 1986, and is considering a bid for the presidency in 1988.

Some of his colleagues may not want to give Mr Dole a head start in the 1988 race by elevating him to a position of such national prominence. Others fear that, with his other commitments, he may not have enough time to devote to the leadership—Mr Baker resigned partly to give himself the freedom of manoeuvre to test the presidential waters for 1988.

The second favourite is generally considered to be Mr Richard Lugar of Indiana, a capable organisation man, who may be too bland for some tastes.

Not so Mr Ted Stevens of Alaska, current majority whip and another contender, who is known for his bluntness and aggressive temper.

Conservative Mr James McClellan of Idaho is the preferred candidate of the new Right, while the mantle of "dark horse" has been bestowed on Mr Pete Domenici of New Mexico, who is seen by his supporters as representing the Baker tradition of sincerity and fair-mindedness.

The candidates' personalities and their ability to work with Mr Reagan are likely to be as important in the secret voting as experience or length of service.

But the election has also been viciously complicated by the Senate Committee chairmanship that are due to be assigned in January. Three of the candidates, Mr Dole, Mr Domenici and Mr McClellan, are chairmen of important committees, posts that they could not retain if elected majority leader, and other senators are eyeing who would be their successors.

Another web of uncertainty surrounds ultra-right Mr Jesse Helms of North Carolina, current chairman of the agriculture committee. Mr Helms is next in line for chairmanship of the prestigious Foreign Relations Committee, thanks to the defeat of Mr Charles Percy, of Illinois, the current chairman, in this month's elections.

Mr Helms has promised his tobacco-producing voters in North Carolina that he will stick with agriculture. But, if Mr Lugar, next in line for foreign relations, wins today, right-wing pressure on Mr Helms would be intense to take the Foreign Relations Committee post to prevent the succession of liberal Mr Charles Mathias of Maryland.

If Mr Lugar does not win, the pressure will be on Mr Helms to stay put to prevent the anti-tobacco Mr Lugar taking over agriculture where he also is the second ranking Republican.

Both the White House and a large number of moderate senators would be distressed if Mr Helms, with his dislike of arms control and his support for right-wing Latin American dictators, were to take foreign relations—a factor that works against Mr Lugar.

Mr Lugar has appealed to his colleagues to ignore the potential chain reaction and vote for him simply as "the best leader."

Opposition groups in Chile begin protests

By Mary Helen Spooner in Santiago

Chilean opposition groups yesterday began a two-day protest and strike against General Augusto Pinochet's regime, amid heavy press censorship and an official crackdown on political activity.

The protest organisers, who included leaders of the multi-party Democratic Alliance, called for midday and evening demonstrations yesterday and a general strike today.

This marks the Chilean opposition's first anti-government protest since General Pinochet ordered a State of siege three weeks ago.

With most opposition publications banned, and the rest of the Chilean news media under tight press restrictions, dissident political and labour leaders have attempted to organise the protest and strike by word of mouth in Santiago and other cities.

Riot police with water cannon dispersed a group of approximately 50 demonstrators singing the Chilean national anthem and shouting anti-government slogans on the steps of the capital's cathedral, arresting a dozen of the protesters.

Army troops patrolled several traffic intersections in Santiago's working class neighbourhoods, where past protests have often turned violent. Colonel Carlos Krumm, the Government's deputy Secretary General, announced the army was calling its reservists to duty, but described the situation in the country as "absolutely normal".

The official also acknowledged that at least six bombs exploded in Santiago on Monday night, but there were no reports of deaths or injuries.

At least two of the explosions were car bombs, which shook nearby buildings and caused windows to shatter. Well informed observers in Santiago report that as many as 40 bombs have exploded since the state of siege was imposed.

Government officials have refrained from referring directly to the protest, and are hoping for a muted reaction to the opposition's call.

Army troops and police inspected several low income neighbourhoods.

Elections lift Uruguay's expectations

URUGUAY WENT to the polls in an effervescent and generally peaceful mood, marred only slightly at the last minute by isolated clashes between rival political groupings. For in spite of the fist fights that developed in downtown Montevideo, the aftermath of Sunday's general election was stamped with the smell of barbecued food and the sounds of music lasting through the day and into the night just as had occurred for most of the campaign.

The bubbling enthusiasm is the result of a political rediscovery. Sunday's presidential, congressional and municipal elections have marked the end of 11 years of military rule in a country that before the 1973 coup had gained an international reputation as one of the most democratic nations in Latin America.

The atmosphere in Uruguay today is in striking contrast to the situation earlier this year when a new clampdown on press freedom, the harsh break up of demonstrations, and the imprisonment of political leaders suggested that General Gregorio Alvarez, the military president, had no real intention of giving up power.

The turnaround in government attitudes came at the beginning of August when the military managed to get the approval of two of the country's three major political groupings, the centrist Colorado Party and the left-wing coalition the Frente Amplio (Broad Front) for a staggered transition to democracy.

The armed forces agreed to hold Sunday's elections on the condition that they retained a limited role in the future regime as members of an advisory national security council. At the

same time the handover of power was fixed for March 1, and the reform of the country's military constitution postponed for 15 months.

The victory on Sunday of Colorado leader Sr Julio Sanguinetti owed much to the fact that he was the main civilian architect of this historic compromise. Sr Sanguinetti was particularly successful in projecting an image of political knowhow and moderation.

By contrast, both the Frente Amplio and the centre-left Blanco party campaigned with a pledge of radical reforms in the banking and agrarian sectors, and an amnesty for political prisoners. The Frente tried to steer away from inflammatory rhetoric and Marxist symbols.

Nevertheless, the Frente's failure to win the municipality of Montevideo or to overtake the Blancos as the second major political force in the country showed that its links with the pro-Soviet Communist Party still alienates a large part of Uruguay's substantial middle class.

The Blancos, who only a few weeks ago seemed the clear favourites to win the election, had the wind taken out of their sails by the imprisonment of Sr Wilson Ferreira Aldunate, their charismatic leader.

"Wilson" saw his stature grow into mythical proportions during a ten year exile because of his vociferous attacks on the military regime. The tension and euphoria which surrounded his return to Uruguay in June was an important catalyst for the military's subsequent liberalisation.

Nevertheless, the Blanco's poor showing in the elections seemed to confirm the view held by his opponents that much of Wilson's support would evaporate once he was back in the country.

For even though the Blanco Party fielded a surrogate candidate in the person of Sr Alberto Zumarán, a little known human rights lawyer, their campaign had as its main ammunition posters and taped televised appearances of Wilson.

The effectiveness of Uruguay's political opposition should not be underestimated however. As has occurred in previous elections, no single political party has emerged with a commanding majority, so that Sr Sanguinetti will find it very difficult to govern unless he takes the opinions of the Frente and the Blanco Party into account.

The incoming government's room for manoeuvre is severely limited by the difficult economic situation inherited from the military regime. An agreement with the International Monetary Fund was suspended earlier this year when the outgoing government failed to meet its budget deficit target.

Real salaries have fallen by 50 per cent since 1973 while unemployment has risen to a historic high of over 16 per cent. Inflation is running at an annual rate of over 70 per cent.

On the external front, Uruguay's foreign debt of \$4.6bn is one of the highest in per capita terms on the continent, equivalent to 78 per cent of GDP and five times annual export earnings.

The dilemma facing Sr Sanguinetti is a familiar one to any president that has taken over from a long period of authoritarian rule—how to reconcile the expectations generated by the elections with the need to put the country's economic house in order.

But as the election euphoria dies down, Sr Sanguinetti must know that he will have to tread extremely carefully in the coming months.

Unlike their Argentine counterparts, the Uruguayan military has not been defeated in a Falklands War nor unleashed the wrath of wide sectors of the civilian population on account of the "disappearance." There has been torture and imprisonment in Uruguay on a large scale over the last 11 years but the human rights record is still not nearly as blotted as across the River Plate.

Thus the military are withdrawing from a position of relative strength and are liable to remain ever watchful of Sr Sanguinetti's performance. However, the overriding feeling among political analysts in Montevideo is that perhaps the most positive aspect of the elections is that they confirm a trend in the region away from military governments towards democracy.

As one hardened Uruguayan democrat put it, perhaps somewhat over-optimistically, "the era of the sabres is giving way to the era of the vote. Thank God."

Quebec party loses seat

QUEBEC'S ruling Parti Québécois has lost to the Liberal opposition its 22nd successive by-election since it was first elected in 1976.

A 26-year-old outsider Liberal candidate defeated a local PQ candidate in the working-class St Jacques riding in East Central Montreal by a good margin on Monday. Unemployment, schools, and other local issues figured in the campaign. However, the split within the provincial Government of Premier René Lévesque over whether the next election should be fought on the independence issue almost certainly played a major last minute role.

Canada launches drive to attract foreign investment

BY W. L. LUETKENS

CANADA will actively seek foreign investment under its new Progressive Conservative Government. Mr Robert de Cotret, the minister heading the Canadian Treasury Board, said in an interview in London.

"You're welcome," was the message to foreign investors he said.

Mr De Cotret has come to Europe to spread that message in the financial and economic community as well as among governments after a period of Liberal government in Ottawa during which the Federal

Government took a carping attitude towards direct foreign investment.

Legislation is about to be tabled in the Canadian Parliament to transform the Foreign Investment Review Agency which has the job of examining proposed inward foreign investments for the benefit it has brought to Canada. If no significant benefit could be established, the Cabinet had the power to disallow the investment.

The agency is to be known as Investment Canada.

Caribbean to discuss Nato link

BY HUGH O'SHAUGHNESSY, LATIN AMERICA CORRESPONDENT

THE ESTABLISHMENT of formal defence links between the mini-states of the Eastern Caribbean and countries of Nato are to be discussed at talks in Barbados this week. They will be led by Brig Ruyard Lewis, commander of the Barbados Defence Force.

The talks follow informal contacts between interested governments at the conference of the Organisation of Eastern Caribbean States held in St Lucia last week.

This week's talks centre on the degree of collaboration there should be between the proposed Regional Security, Ser-

vice (RSS), mooted by the U.S. and Barbados governments, and other big powers with interests in the Caribbean.

The RSS is planned to embrace the security forces of Barbados and the Leeward and Windward Islands and to deter international and external threats to the governments of the small and vulnerable islands in the area.

The idea stems from the Eastern Caribbean Defence Community established in 1979 and has been strenuously canvassed by the U.S. Government since the Grenada crisis last year.

The project has been criticised by several governments of the area, notably that of St Vincent and Trinidad and Tobago.

Mr James Mitchell Prime Minister of St Vincent has said that the region could not afford larger defence expenditures while its populations were in need.

Mr Mitchell has also threatened to withdraw Vincentian policemen from the U.S.-led force stationed in Grenada.

Despite initial difficulties the Reagan Administration is seeking support for the RSS from Britain and Canada.

Bomb blast at U.S. embassy

A BOMB exploded outside the U.S. embassy in Bogotá on Monday afternoon, killing one woman and wounding six men, all Colombians, writes Sarita Kendall in Bogotá.

No group has claimed responsibility but the attack has been widely attributed to Colombian drug trafficking gangs.

The embassy recently stepped up security after receiving threats to kill Americans if the extradition of Colombian citizens wanted for trafficking and money laundering in the U.S. went ahead.

Several extradition orders have been approved by the Colombian Government.

DISCOVER INSPIRED GREY MATTER



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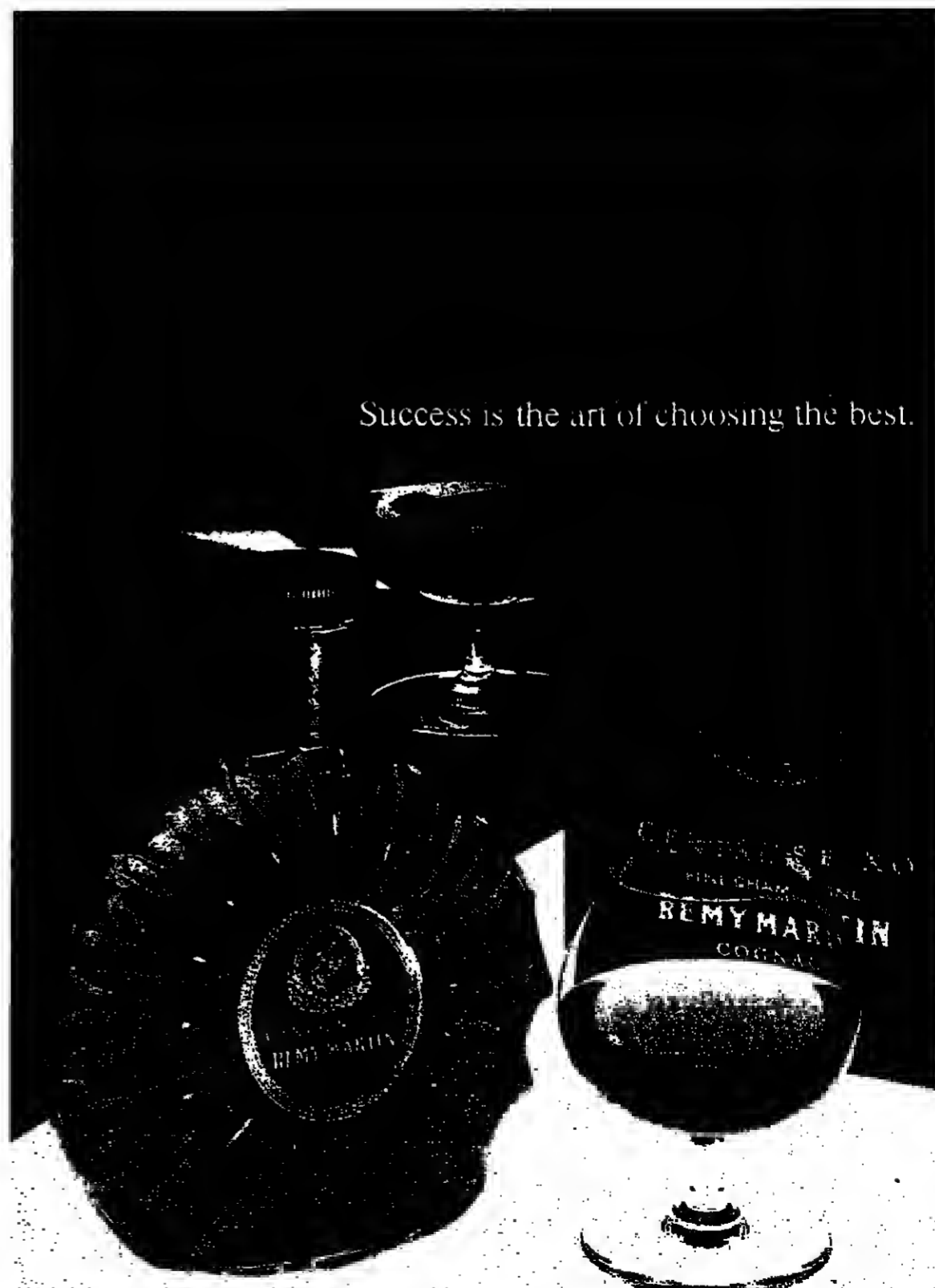
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MANAGEMENT

Pakistan's Habib dynasty

Keeping it in the family

A broadly-based family management has replaced an autocracy. John Elliott reports.

"YOU SHOULD review your relationships every three to five years so you can adjust, rather than fighting later," says Rafiq Habib, one of Pakistan's new younger industrialists.

He is referring to the problem faced by many family companies in developing countries of how to move away from a benevolent form of managerial autocracy, run by the founder or a key elder figure, when younger relations want some freedom.

Rafiq reckons the Habibs, with nearly 50 family members actively involved in over 100 companies, have successfully loosened the reins of central direction. They have also relaxed conventions about cross-financing between the family's five main business branches and appear to have avoided fierce family quarrels that can break out over ownership and prestige when a major figure dies.

The Habibs are a famous business family on the Indian subcontinent. They founded the Habib Bank in Bombay in 1941, and moved it to Karachi in 1947 when Pakistan separated from India after independence.

Now five branches of the family, each started by a son or daughter of the founder, Habib Ismail, run a growing number of industrial and

commercial companies employing over 15,000 people.

The bank still operates abroad under Habib family control as Habib Bank AG Zurich. In Pakistan it still carries the Habib name, even though it was fully nationalised in 1974. It was the cornerstone of a commercial and industrial empire including insurance, jute and textiles, much of which was nationalised in the early 1970s when the then Bhutto government set out to quell the power of Pakistan's 21 main families.

Along with other families the Habibs were losing businesses for the third time—in the previous 15 years they had been ousted from Burma and Bangladesh after it separated from Pakistan.

The scars of those blows to entrepreneurial enthusiasm still hinder Pakistan's industrial development. Many of the families invest abroad rather than in Pakistan and even the Habibs seem to keep their personal financial commitments low, relying heavily on borrowed money for new projects.

This is partly why family businesses are not usually linked up in formal groups (legal and taxation requirements also deter formal groups). The families want to avoid the risk, for example,

of their engineering or textile interests being nationalised accidentally in a government take-over of, say, sugar or cement industries.

It is these fears of nationalisation, plus the need to relax central control in expanding families, that has influenced the devolved form of ownership and management that the Habibs have adopted both within and between the five family branches.

The branches are known by the names of the four sons and one daughter of Habib Ismail—Ahmed Habib, Dawood Habib, Mohammed Ali Habib which Rafiq runs, Gulam Ali Habib and Sakina (Rafiq's wife). Each of the branches is now run by Ismail's grandchildren.

Rafiq, one of four brothers in his branch, is chairman of 15 public limited companies and a dozen other industrial units. He has a turnover of about £120m a year. The businesses include a major foundry (see accompanying article), automotive components, gypsum and strawit board, cement and paper sacks. He also has an agreement with Toyota to produce its cars in Pakistan, but needs government clearance and is talking to Suzuki about a Dunlop tyre plant.

Four of his companies have been successfully floated on the Karachi stock exchange in the past year.

The two biggest of the five branches are Rafiq's and the Dawood branch, which includes a new joint venture with the Pakistan Government called Al-Chad to produce Fiat tractors, as well as sugar mills, particle board and glass container factories and various textile businesses.

In Rafiq's branch, two of his brothers are involved in running the family's Zurich-based bank, and the third heads engineering and gypsum interests. All the businesses within the branch are run as separate enterprises, in line with the family's philosophy.

The most significant devolution, however, has taken place in the central family control and financial relationships linking the different branches as individual members have wanted to make their own mark.

Until two years ago there was a joint family council of one representative from each branch which set overall trends and had an effective veto on new projects and other major decisions.

"Ten years ago we met monthly, five years ago twice a year, then once a year. Now there are no formal joint



Rafiq Habib: other family members have influence by no veto

meetings. So instead of taking projects in the council I'll circulate details and meet them individually," says Rafiq. This means that other members of the family have influence but no veto.

More informal links have also changed. About 20 years ago all branches were run from one building where the main family members met

daily for lunch. Later they gathered every Friday after Muslim prayers for lunch at the offices of Habib and Sons, the family's old cotton company and flagship.

But the late ex-president Bhutto stopped that when he made Friday a weekend holiday in 1977. "So we don't go in the office after prayers any more and there is no lunch. In any case, imagine trying to do it with all the 44 members of the family now active in the business — it wouldn't be quite the same," says Rafiq.

carried out in Pakistan instead of the European countries of origin, and local delays. "Time is zero in this country—a four week delivery here is four months' an engineering construction," said one of the British consultants.

But the economies remain. The installed cost of the equipment is estimated at only about 25 to 30 per cent of the £9m to £10m cost of new equipment, although the company estimates that extra costs and delays can bring the total up to 30 to 40 per cent.

It is these economies that Rafiq Habib hopes will make him internationally competitive. "China is discounting 54 per cent on pipe fitting list prices, but in two years Baluchistan Foundry should be able to compete and export pipe fittings made in Pakistan," he says.

Problems included availability of spare parts, delays caused by refurbishment being

Marketing managers

The missing generation

IN FIVE years' time there will be a dearth of top quality marketing managers. This gloomy view was given to delegates at the 25th anniversary conference of the Marketing Society in London last week by Keith Holloway, group director of Watney Mann and Trueman, the UK brewers.

"The recession and the subsequent attack on company overheads has had a savage effect on the number of people employed in marketing," he said. "Facts are very difficult to obtain but the opinion of senior marketing people I have spoken to is that the state of most marketing departments has been reduced by between a third and a half."

Holloway added that many of the cuts had come at junior management level. "So the opportunity for bright young people to take up marketing has been greatly reduced," he said, which pointed to a "desperate shortage" of senior management in a few years.

The danger of this policy, he maintained, was that marketing, having come so far in a quarter of a century, may go into reverse. It was a concern was supported by Stephen King of the J. Walter Thompson advertising agency:

"In some instances, I find we're coming back towards a situation that existed when I first worked at JWT in the late 1950s, when the agency wrote the clients' 'marketing plans'."

King also suggested that the cuts in marketing professionals had come at an inappropriate moment. "One of the things that does concern me is that just as companies are getting their market data sorted out on to their computers, they are cutting down on the people who might usefully analyse their data," he said. "As a result these vast stores of potentially useful information are often being used for little more than telling management what last month's market share was."

The failure of companies to consider a marketing approach in more depth had led, suggested Holloway, to increased import penetration, reduced exports, business closures and higher unemployment. "We know that marketing has not always found it easy to take root in British business and is still, in many instances, growing in shallow soil. It is perhaps a more fragile plant than we realise."

David Churchill

Business courses

Pensions in 1984, London, 22-23 January, Fee: £300 + VAT. Details from the Financial Times Conference Organisation, Minster House, Arthur Street, London EC4A 3AX. Tel: 01-621 1355. Telex: 77347 FICONF G. Advanced selling skills for bankers, London, January 8-10. Fee: £385 + VAT. Details from D. C. Gardner and Company, 54 Bartholomew Place, London EC1A 7HH. Tel: 01-406 7644.

January 28-30. Fee: Non-members BPT 53,000. Members (AMA/1) BPT 48,000. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11. Telex: 21.917.

Current research in management, Herts, January 2-4. Fee: ATM members £115 (residential); non-members £138 (residential). Details from Marguerite Trevelyan, Association of Teachers of Management, Polytechnic of Central London, 35 Marylebone Road, London NW1 5LS. Tel: 01-486 5811 ext 289.

Corporate planning in practice, Henley, January 27-February 1. Fee: £790 (residential). Details from the Short Courses Secretary, Henley-The Management College, Greenlands, Henley-on-Thames, Oxon, RG9 3AU. Tel: 049-166-451. Telex: 849026 Henley G.

The economics of utilising second-hand plant

equipment.

On the Indian subcontinent two of the most dramatic examples are the planned transfers from the UK of BL production lines for the Ital car to Lahore in north-east Pakistan and the Rover car to Madras in southern India.

On a smaller scale, facilities for Pakistanis living abroad to seed machinery borne with special duty and tax concessions has attracted major industrialists such as Rafiq Habib, and smaller businessmen setting up garage-sized engineering workshops.

"Our problem is that the Pakistan market is too small, so we need to bring down our costs by buying second-hand machinery to make projects viable. Otherwise we could not compete with imports from

Japan or China," says Rafiq, who is one of a small number of Pakistani industrialists starting major projects in the country.

"We have no existing engineering industry in Pakistan and, just as we are getting into it, the Japanese are swamping the market worldwide."

"Here we can't compete with Suzuki's Japanese radiators (for a new car factory in Karachi) at £23 delivered including duty, or with a mass delivery of 1m shock absorbers. One Japanese factory I've been to does 23m shock absorbers a year—we might do 3m or 1m."

It is these economies which Rafiq is trying to challenge, especially with a project called Baluchistan Foundry which produces ferrous castings for pipe fittings and automotive parts.

The foundry is located in an industrial suburb of Karachi called Huh, just across the city boundary in Pakistan's eastern desert province of Baluchistan where investments attract tax concessions.

It was conceived in 1980 as a £3.8m project to produce pipe fittings, all of which would be imported into Pakistan. It increased by £1m when it was expanded to produce automotive castings and by about £750,000 because of a decline in the value of the Pakistan rupee against the dollar.

With the help of a British foundry consultant, REI of Buckinghamshire, the foundry was located in Greece, outside Athens. After two years' delay caused by nego-

tiations with Greek authorities involved in the bankruptcy, the foundry was shipped from Greece in 1982 and entered trial production at the end of last year.

It took four months to strip the equipment—much of it British—out of the Greek factory. A UK-made 50-metre long, 12 foot high, heat treatment furnace only a year old was cut into three sections for shipping to save destroying its virtually new brick lining. Three large furnaces that had been assembled in the factory were taken to pieces. Other equipment shifted included 10 indexed threading machines and two grinding machines.

Problems included availability of spare parts, delays caused by refurbishment being

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UK NEWS

'Joint strategy' vital in battle against inflation

BY PHILIP STEPHENS

SUCCESS in the fight against inflation is not enough to ensure the revival of Europe's economies, and governments must adopt a common strategy to combat the "growth sclerosis" afflicting Europe, Mr Willy de Clercq, Belgium's finance minister, said yesterday.

Mr de Clercq, the present chairman of the International Monetary Fund's Interim Committee who will join the European Commission in January, gave a warning that hopes in Europe for sustained non-inflationary growth could be met by "sustained non-inflationary stagnation."

He told a conference of businessmen, organised by the International Herald Tribune, that he hoped the Commission would adopt a five-point strategy to boost growth.

The first priority would remain a vigorous counter-inflation policy,



De Clercq: concern

through sound monetary, budgetary and wage policies.

That, however, must be coupled with a series of measures to bring the underlying performance of European economies into closer conformity with those in the U.S. and Japan.

Those would include:

- A redistribution of national income in favour of profits, through lower wage increases, lower and simpler taxes, and the removal of government red tape;

- Removal of rigidities in the labour market that hamper innovation and entrepreneurial activities. That would include the removal of restrictions on working time and efforts to align wage rates more closely to output;

- Greater progress towards economic integration in the European Community through the removal of trade and other barriers to competition;

- Efforts to bridge the "technological gap" between Europe on one side and Japan and the U.S. on the other.

Foreign BT investors attacked

BY IOR OWEN, POLITICAL STAFF

BANKERS and brokers in Switzerland and the U.S. were seeking to cash in on the undervaluing of shares in British Telecom by using methods that would be illegal in the UK, Mr Roy Hattersley, the deputy Labour Party leader, alleged in the House of Commons yesterday.

He said they were "buying forward" and offering 40 per cent above the part-paid issue price of 50p a share. Applications for shares close today.

Mr Hattersley called on the Prime Minister to estimate how much money was going to be lost by the British taxpayer through this latest example of the "bungling" of a flotation by the Government. Mrs Margaret Thatcher replied that the Exchequer would "have its money" by virtue of the issue having been underwritten.

She told Mr Hattersley, "What you cannot stand is the success of the British Telecom flotation."

Mr Hattersley said the Prime Minister's reply indicated that she either did not understand the law or was careless of its application. He emphasised that the practice he had described would be illegal if operated by British speculators.

He demanded: "Why do you condone, indeed boast about, a practice which would be illegal if operated here?" The Prime Minister retorted that Mr Hattersley was well aware that anything that was illegal in the UK would be dealt with in the courts "totally and utterly impartially."

Mrs Thatcher maintained that Mr Hattersley's real reason for condemning the privatisation of British Telecom was that he did not want to

see more extensive share ownership in Britain.

British Telecom shares are expected to go to a premium of over 20p when dealings begin next Monday, Alison Hagan writes.

Strong demand is expected from institutional investors, who are still hungry for shares after the initial placing of 1,428m shares worth £1.857bn. They expect to pick up very few shares in the allocation of the remaining £1.52bn worth of shares on offer to the UK public and to BT employees, because of the overwhelming interest from private investors.

"The first day dealings could be quite dramatic. The only sellers are likely to be foreign as many UK investors will not know their level of allocation," one institutional investment manager said.

£20m deficit fails to dent TV-am optimism

BY RAYMOND SNODDY

THE ACCUMULATED deficit of TV-am, the commercial breakfast channel, will reach £20m by the end of this year and shareholders are unlikely to see any real profits in 1985.

The channel's first year on air saw a loss of £12.2m, with a further write-off of £5.7m incurred before January 1983. In the current year the company's financial position has improved but a loss of £2m to £3m is expected.

Mr Bruce Gyngeil, TV-am managing director, said yesterday, however: "The light at the end of the tunnel is no longer the light of an express train rushing towards us. It actually is daylight."

Since July 1983 the weekly audience reach figure had risen from 4.7m to 11.2m this month and the average advertising rate had risen from £200-£300 a minute in the station's darkest days to an average that was now between £3,500 and £4,000 a minute. A new rate card from January would produce an average of around £5,000 a minute.

The company was trading at a profit at the moment although this was a strong period of the year for advertising.

Mr Ian Irvine, a director of TV-am and managing director of Fleet Holdings, the largest TV-am shareholder, said yesterday: "I hope that through the franchise period it will be a profitable investment."

He admitted that it would take most of the franchise period, which expires in 1991, to pay off the total deficit. Costs continue at about £18m a year.

The station plans to expand its news and current affairs coverage. "I was horrified by our news service when I first came. I think it was vastly inadequate," Mr Gyngeil said yesterday.

The turning point at TV-am, Mr Gyngeil believes came with the channels decision not to cover the Olympic Games. The company was able to hold its revenue and its audience while saving most of the £200,000 the coverage would have cost.

Large business park planned near Heathrow

By Joan Gray

A £75m international business park close to Heathrow Airport, London, is to be developed by Stockley and financed by the Universities Superannuation Scheme (USS).

Stockley Park is expected to attract multinational companies, particularly computer, electronics, telecommunications and pharmaceutical groups, and to create 4,300 new jobs when completed.

The project, located on a 340 acre site by the Grand Union Canal, near the interchange of the M4 and M25 motorways, will have an initial phase of a 1.5m sq ft development, comprising 500,000 sq ft of buildings, and will be financed by the USS at a cost of approximately £50m.

The USS is also subscribing to a £25m debenture issued by Stockley to be used by the company for the remainder of the project infrastructure.

BAe wins Harrier update contract

By Michael Donne

BRITISH Aerospace has won a £200m contract from the Royal Navy for a "mid-life update" of the Sea Harrier jump-jet combat aircraft fleet, including provision of a new radar and a new missile system.

The Royal Navy has 51 Sea Harriers in service or on order, and it is understood that all will be fitted with the new radar and missile system. Work will start soon, and is expected to be completed before the end of the decade.

The Sea Harriers designed for use from the anti-submarine aircraft carriers Invincible, Illustrious and Ark Royal, will be fitted with the new Ferranti Blue Vixen advanced radar.

In addition, the aircraft will be capable of carrying the new Advanced Medium Range Air-to-Air Missile (Amraam), now being developed in the U.S. by Hughes Aircraft for Nato.

The first users in Europe of the Amraam will be the Royal Navy, followed by the West German air force and the British Royal Air Force.

The Sea Harriers, to be called FRS-2s on completion of the update, provide the fleet with a much improved air defence capability.

The work will be carried out by BAe, the original manufacturer

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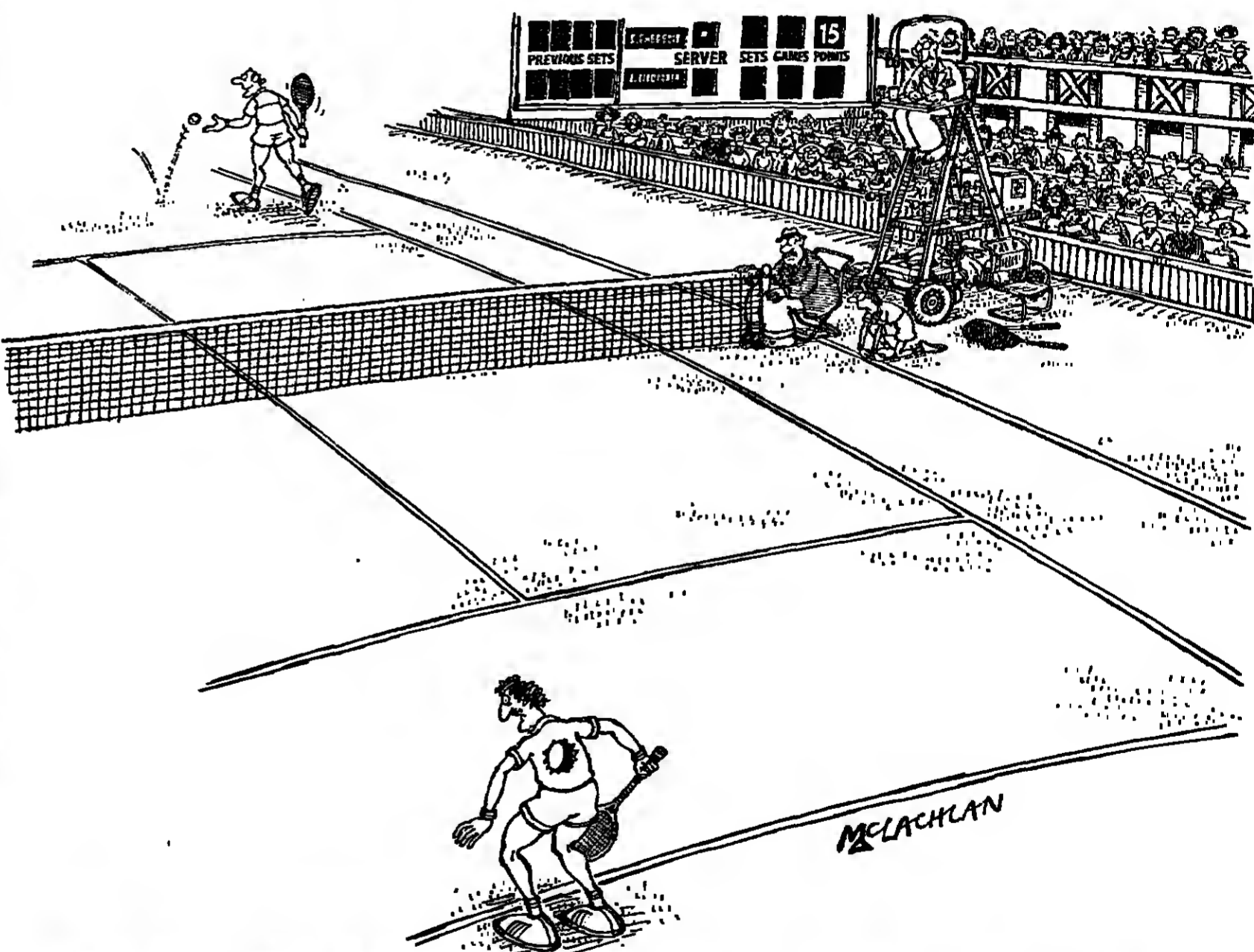
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UK NEWS

New capital-raising methods of banks come under scrutiny

BY DAVID LASCELLES, BANKING CORRESPONDENT

NEW METHODS used by banks to raise capital and boost the volume of business that does not appear on their balance sheets are coming under close scrutiny from international bank supervisors.

The likelihood that bank regulatory practices will have to be changed to take account of them was raised by Mr Peter Cooke, the head of supervision at the Bank of England. Mr Cooke, who also chairs the Basle Committee of international bank supervisors, was addressing a meeting of banking officials in Kathmandu, Nepal, last week.

The Bank of England this week released the text of his speech, which forewarns a discussion paper on UK bank capital now in the final stages of preparation at the Bank.

Mr Cooke said banks were raising more loan capital, as opposed to equity. Many countries allow them to count some of it as capital when calculating capital ratios, the amount by which a bank can "gear up," even though it is not as good as equity.

However, Mr Cooke said the Bank was worried about "trigger clauses" in many loan capital deals that allow investors to demand repayment if a bank gets into trouble, and is considering whether to con-

tinue to allow them. Such clauses, he said, "can have the effect of requiring payment of this element of capital just when it is most needed."

Mr Cooke also said the UK authorities might give "greater recognition" to perpetual subordinated debt, although it could never replace pure equity. Several UK banks, including National Westminster and Barclays, have issued that kind of debt - which never has to be repaid - and in some cases there is provision for it to be converted into equity to cover heavy losses at a bank.

The U.S. has got round some of these difficulties by introducing two definitions of capital, primary and secondary. Mr Cooke praised the system and hinted that it might be used in the UK. "I am attracted by the prospect of the more qualitative assessment of capital which it offers."

He is clearly concerned, however, about the recent rapid growth in business off balance sheet, particularly the growing Euromarket practice where banks guarantee to lend to companies that have difficulty in issuing short-term paper in the money markets. Such commitments, which can be for seven to 10 years, are sometimes called revolving underwriting facilities.

STATE HAS 'FULL COMMITMENT' TO PROTECTING MARINE ENVIRONMENT

Nuclear dumping at sea to halt

BY DAVID FISHLOCK, SCIENCE EDITOR

BRITAIN is expected to abandon dumping radioactive wastes in the Atlantic, after a joint Government-TUC review of the annual nuclear industry sea dump.

It is understood that the review body, under the chairmanship of Professor Fred Holliday, vice-chancellor of Durham University, does not come out sufficiently strongly in favour of the sea dump to justify its retention.

Prof Holliday's report is to be published next month. Sir Peter Harrop, second permanent secretary at the Department of the Environment, said in his opening address to the radioactive waste management conference of the British Nuclear Energy Society in London yesterday.

Sir Peter said Britain was fully committed to protecting the marine environment.

He believed that with the extra investment proposed by British Nuclear Fuels this summer it should be possible to ensure that radioactive discharges from the Sellafield factory in Cumbria do not exceed current levels, even with a big build-up in nuclear energy in Britain.

Sir Peter told about 300 delegates that the Government would shortly publish the guidelines by which it proposes to judge plans for the siting of new land-based nuclear waste dumps.

His own department was looking "well into the next century" in making

its forecasts of the amounts and the kinds of nuclear wastes Britain will accumulate.

Its general conclusion was that future difficulties were "unlikely to be qualitatively different from those we can see."

Britain has been sea dumping about 200-300 tonnes a year of radioactive waste contaminated with traces of long-lived radioisotopes such as tritium and plutonium.

Such waste, embedded in 10 times its own weight of concrete shielding, will have to be stored at the new sites together with other kinds of nuclear waste from the medical, defence and nuclear electricity industries.

Prof Paul Matthews, chairman of the Government's Radioactive Waste Management Advisory Committee, disclosed the end of sea dumping in answer to a delegate's question.

Prof Matthews said, however, that even by the end of the century, when Britain would be producing about 30 per cent of its electricity from nuclear stations, the total accumulation of nuclear wastes would be only the same weight as "about a week's spoil from the coal mines".

Prof Matthews said the issues of nuclear waste management were "almost exclusively political". Political activity was barring access to information the nuclear industry needed to design its repositories.

Judge may fine second union at Austin

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

A HIGH COURT judge is considering whether to fine the white-collar section of the Amalgamated Union of Engineering Workers for its alleged contempt of court in connection with the Austin Rover strike, which ended last week.

The Transport and General Workers' Union was fined £200,000 on Monday for contempt of court. The fine was imposed because the union failed to comply with an in-

junction ordering it not to encourage its members to strike at Austin Rover. The union was given 14 days to pay.

Mr Justice Hodgson said yesterday that he would probably give his ruling on Friday on Austin Rover's claim that Tass - the technical, administrative and supervisory section of the Amalgamated Union of Engineering Workers - deliberately

ignored a court order to call off the strike by its members.

Earlier yesterday the company had agreed that the injunctions made on November 8, to withdraw strike instructions and not to call a strike until one had been supported by a majority of the union's members in a ballot under the 1984 Trade Union Act, should be discharged.

However, Austin Rover pressed for a contempt penalty, saying that Tass had taken a conscious and deliberate decision that it was not bound by the order while it was in force.

Mr Stephen Sedley, QC, for Tass, said the union had not officially endorsed the strike call by the union side of the joint negotiating committee at Austin Rover. It could not, therefore, be punished.

Dry North Sea wells may give cheap electricity

BY MAURICE SAMUELSON

EXHAUSTED North Sea oil or gas wells might still contribute to Britain's energy needs by being turned into a modest source of cheap electricity as a result of an £8.7m project being proposed to the oil industry by a small, Lancashire-based company.

Submersible generators would produce electricity on the seabed using geothermal heat extracted from wells sunk by the offshore oil industry.

The project has been designed by Total Energy Conservation and Management (TECM) of Skelmersdale, whose chairman, Mr George Lockett, hopes to have its first working model in 18 months.

Unlike other geothermal projects, in which two adjacent boreholes are used to circulate the heat from beneath the earth's surface, the TECM system requires only a single borehole, similar to those drilled by oil rigs.

One of the projects TECM is discussing with the oil industry involves installation of a submersible generator on a well-head that is about to be abandoned. It could produce 2.5 megawatts of electricity for sale to the national grid.

TECM said it had a record of all the holes drilled by the UK oil industry, both on land and offshore. It prefers deep-sea wells situated where the earth's crust is thin and where the least drilling is required to reach high temperatures. The cold water also absorbs the generator's exhaust heat.

Mr Lockett said his company already had "a substantial proportion" of the £8.7m cost of developing a 2.5 MW generator and that the balance would be arranged soon.

He said the attractiveness of the scheme had been enhanced by last year's Energy Act which, for the first time, gave legal backing to private companies wishing to generate electricity as their primary business.

● The Government is considering ending its financial assistance to companies that switch to coal from oil or gas.

The Department of Energy said it would like the scheme to continue beyond this year, when it is due to be cancelled or renewed. It has not yet, however, convinced other government departments, including the Treasury, that it is still justified despite the miners' strike.

Mr Peter Walker, Energy Secretary, said last month the strike had deterred more than 1,800 companies from switching to coal, even though it remained "very competitive" with other industrial fuels.

In the past three years the Government has made £75m available to cover up to 25 per cent of approved costs of converting boilers and furnaces to coal.

If completely utilised, it would have raised the industrial coal market by 3m tonnes a year.

Because of the miners' strike only £60m has been taken up, and there is no chance that the balance will be allocated by the end of the year.

Coal board officials, who want the scheme extended, argue that even during the strike some businesses have switched to coal and, apart from the electricity, steel and aluminium industries, the board has kept up its supplies to industry at 85 per cent of last year's level.

Radioactive clean-up at closed naval base

BY OUR SCIENCE EDITOR

THE ROYAL Navy's nuclear submarine base at Chatham, Kent, is to be dismantled by Northern Engineering Industries in the first substantial contract for nuclear clean-up operations to be given to the private sector in Britain.

The £800,000 contract has been awarded to NEI Nuclear Waste Technologies of Gateshead, by Rolls-Royce and Associates, the defence company that has "cradle-to-grave" responsibility for the Navy's nuclear propulsion systems.

Chatham has been closed as a submarine refit base with the commissioning of the Navy's C50m facility serving its hunter-killer submarine fleet at Devonport.

Mr John Bennett, chief executive of NEI Waste Technologies, says he expects the contract to occupy about 20 people at Chatham for the next year.

His task is to free the dockyard of all nuclear contamination picked up in the 20 years during which it has served as a nuclear submarine base.

Radioactive components and materials will be packaged by NEI and handed to the Ministry of Defence.

at Chatham, which will take responsibility for their disposal.

Mr Bennett said his company won the contract in competition with several other UK companies, forming a newly emerging sector of the nuclear industry dealing with nuclear wastes.

The contract includes the decommissioning of engineering and laboratory facilities used by Rolls-Royce and Associates to remove the used fuel core of nuclear submarines, and refuel the reactor. No nuclear fuel is involved, however, since the Navy despatches all used submarine fuel to the Sellafield factory of British Nuclear Fuels, in Cumbria, for storage in its own used fuel pond.

NEI Waste Technologies is jointly owned by NEI (85 per cent), PPC Consultants and Chem Nuclear Systems of the U.S., specialists in decontaminating radioactive materials.

Mr Bennett said he hoped the nuclear waste treatment business would grow fast enough to absorb some of the engineering effort now becoming redundant with the end of NEI's reactor orders.

Stricter rules planned for whisky labelling

GOVERNMENT proposals to strengthen the labelling requirements for Scotch whisky have been welcomed by the Scotch Whisky Association, Lisa Wood writes.

The association, however, has expressed disappointment that the Government is unable to introduce a legal minimum strength of 40 per cent alcohol, which has been the normal strength of Scotch whisky for about 70 years.

Under-strength whiskies have an estimated 5 per cent share of the UK whisky market. Although suppliers of under-strengths are legally obliged to mark the product as such, traditional Scotch whisky suppliers complain that labelling is not always conspicuous and can lead to consumers being confused.

Mr Michael Jopling, Minister for Agriculture, Fisheries and Food, said he had withdrawn earlier proposals for new whisky regulations because he had been advised that it would not be appropriate to use food legislation to impose a minimum strength requirement.

"We are, however," he said, "considering ways and means of improving the labelling requirements for under-strength spirits and we expect to make fresh proposals on this matter shortly."

Mr Jopling said he was also continuing to press for progress in the EEC Council of Ministers on the proposal for a Community regulation defining spirits, which includes a requirement that Scotch whisky should not be less than 40 per cent alcohol by volume.

Figures published by the Scotch Whisky Association show exports for the first 10 months of this year to be 1 per cent up on the same period of last year.

● BIG TOUR operators may have to re-examine their prices for next year, according to British Airways.

Holidays, which includes Sovereign and Enterprise, its 1985 holidays have average price increases of about 12 per cent in a marketplace where increases have been up to 20 per cent.

British Airways said it believed the market would not bear increases of 18-20 per cent and it had cut costs by reducing advertising plans by £1m and combining the Enterprise and Sovereign brochures.

● HOUSE REBUILDING costs rose on average by 5.1 per cent over the 12-month period to September 1984, according to figures released from the British Insurance Association.

● MR JIMMY DUNBAR, the director of British Steel's Ravenscraig steel mill in Scotland, is to take over as chief executive of the troubled North British Steel castings company in Bathgate, near Edinburgh.

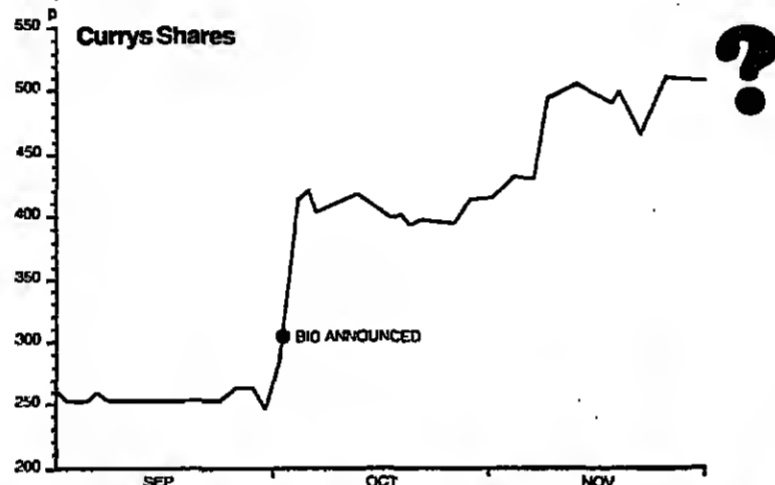
His appointment follows the financial restructuring of the company after heavy losses in the last two years.

● MARKS & SPENCER, the retailer with the largest sales volume in the UK, announced that its first out-of-town store was to be at Gateshead, North-east England. The store, due to open in 1988, will be in a new £50m centre, which will be the largest out-of-town shopping complex in Britain.

● THE UK helicopter industry, including both operators and manufacturers, is seeking a new site in central London for a heliport to allow regular flights with minimum noise disturbance.

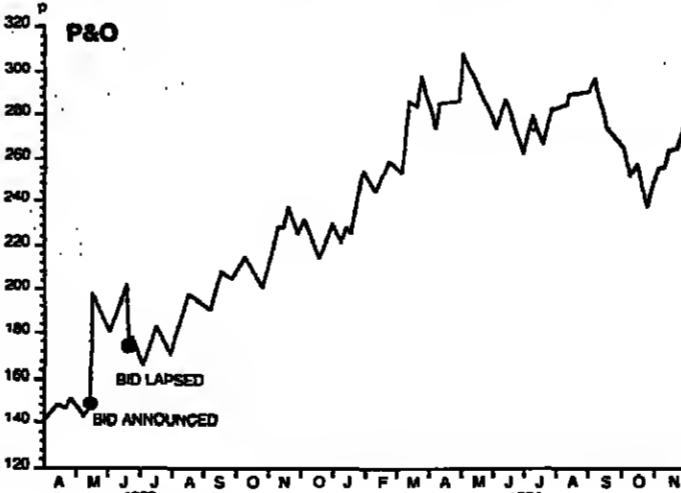
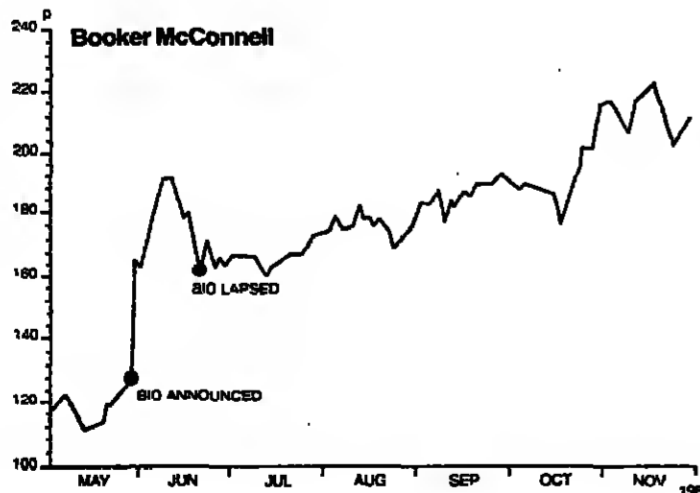
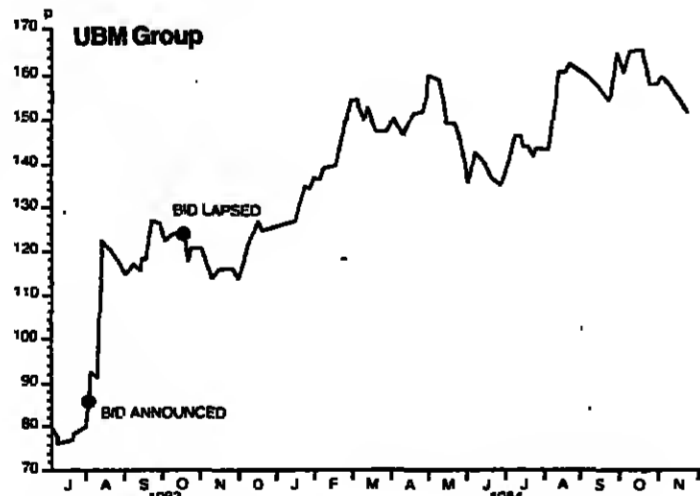
That was disclosed by Captain Eric Brown, chief executive of the British Helicopter Advisory Board, who announced a campaign to improve the public image of the helicopter and its role in modern transport.

This advertisement is published by S. G. Warburg & Co. Ltd. on behalf of the directors of Currys Group plc.



How high will Currys' share price be after Dixons' bid lapses?

Look at some recent experience of companies for which unsuccessful offers have been made. These graphs* show the benefit of REJECTION.



*Source: Data Stream, NBS - No account has been taken of the movement of share price on the market generally

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UK NEWS

Pilkington opens energy-saving glass factory

BY LORNE BARLING

PILKINGTON GLASS, the company based at St. Helens, Lancashire, that dominates the UK glass industry, has invested £7m in a plant to produce a new energy-saving product called Kappafloat.

Kappafloat, a coated glass, has been developed by the company over the past 10 years and is said to improve insulation by up to half over ordinary double glazing.

The glass is coated with selected metals and metal oxides in a vacuum chamber, under carefully controlled gas pressures. The finished product lets in heat and light, with the metal coating acting as a one-way barrier, with significant reductions in the amount of heat leaving buildings.

The new factory, at Corby in the Midlands, was opened yesterday by Mr Peter Walker, Secretary of State for Energy, who pointed out that Britain was near the bottom of the European league on energy saving.

Mr Anthony Pilkington, group chairman, said that if the country's stock of single-glazed housing was re-glazed with the new product, it would save the equivalent energy of 5m tonnes of oil a year, or about 290m.

"There is still plenty to be done to bring this country up to world standards, but we need some support from the Government in the framing of building regulations."

Apart from Greece, he said, the insulation standards in the UK were the worst in the EEC.

The new, highly automated plant employs only 28 people and is capable of making 1m square metres of the new glass a year: enough to supply the present UK market with such glass.

However, demand is expected to increase rapidly and the Corby factory will be able to raise output by more than 30 per cent without further investment.

Mr Pilkington said the company had invested £55m this year, mainly in repairing and upgrading existing flat glass plants.

Demand for glass remained buoyant but prices were under pressure, mainly as a result of increasing imports from continental Europe.

Pilkington's first low-emissivity plant was built in Sweden in 1981, supplying the demanding local market, and the product subsequently won a notable building industry award.

Earth movers start to retrench

BY IAN RODGER

A SPECIAL KIND of refugee can be seen near Birmingham this week.

The occasion is the International Construction Equipment exhibition at the National Exhibition Centre, and many of the exhibitors are companies that have been through either bankruptcy or a change of ownership since the last ICE in 1981.

The show is otherwise remarkable mainly for its absentees. Many leading companies, such as J. I. Case of the U.S., J. C. Bamford Excavators of Britain and Liebherr and Orenstein & Koppel of West Germany, have apparently decided that there are too few orders to be had in this deeply depressed industry to justify the effort of exhibiting.

"It is very disappointing, but it is what I expected," Mr John Arkell, managing director of Volvo BM, said. Volvo, a leading maker of dump trucks, is at the show, but is not showing any machines.

Many of those that did come seem to be here mainly to show that they are still in business, albeit under new ownership. Probably the largest single group of refugees comes from the West German IBH group, which collapsed late last year. Many of them appear to be trying hard to distance themselves from IBH associations.

Hymac, for example, the British excavator maker taken over by Northern Engineering Industries, has become NEI Hymac. Its machines are displayed alongside NEI dump trucks and concrete mixers as if they had always belonged. "We have sold 150 machines since the acquisition," Mr Egan O'Callaghan, marketing manager of NEI Thompson, said. That is nothing like the volumes Hymac had in its heyday in the 1970s when it was UK market leader, but Mr O'Callaghan is not complaining. "We are in this to make money, not for market share."



Mechanical excavator industry faces a difficult future

Blaw Knox, the UK paving company that was part of Babcock International before being taken over by the IBH associate Wilson, in 1982, has rejoined its original U.S. parent. The group's ICE exhibit features umbrellas proudly proclaiming "Blaw Knox USA."

Maco Meudon, the French compressor maker bought out by its management, has returned to life as Maco, and describes itself as "simply the best." Duomat, the West German compaction equipment maker, is now Ammann Duomat, taking on the name of its new Swiss parent company.

Two other former IBH companies, Hamm and Lanz, are also at the show, but Terex, the big earth-

moving equipment group of which the Scottish operations have been bought back by General Motors, is not.

A few months ago, the sight of huge Grove and Coles mobile cranes confronting each other across an exhibition hall floor would scarcely have been noticed. Now they look faintly amusing. Grove, the U.S.-based industry leader, has recently acquired Coles from the receiver of Acrow, the UK group.

"It all happened so fast, and we were all organised for the show, so we just went ahead," a Coles official said.

Nearby, a giant Aveling Barford dump truck testifies to the continuity of this former BL subsidiary, sold late last year to a U.S. entrepreneur.

Diesel engine makers form another big group of exhibitors. "We are just here to support our customers, we never sell any engines at these shows," Perkins Engines said. However, the presence of 19 suppliers also reflects the cut-throat competition now taking place in the business as an increasing number of equipment makers seeks customers for their surplus engine-making capacity.

Engines, though, do not make a construction equipment show. Visitors like to see what they call big tackle, and they like to see it in action. At ICE, there is not much of either.

Nissan UK auctions joint-venture models in bid to cut stocks

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

NISSAN UK has been selling at auction new Cherry Europe models - cars made in Italy by the joint-venture company owned by Nissan of Japan and Alfa Romeo, the state-owned Italian group.

That follows the launch in Britain this month of the Alfa Romeo version of the same car, called the Alfa Romeo. Alfa's wholly-owned British subsidiary took a very aggressive marketing approach and has priced its version at £425 less than the equivalent model with a Nissan badge.

The Alfa Arna 1.2-litre SL has an "introductory" list price of £4,350 compared with £4,775 for the Nissan Cherry Europe 1.2-litre, even though the Alfa car has more doors - five instead of three.

Nissan UK, a privately owned concern, said yesterday that, as a result of the introduction of the cheaper Alfa cars, the company had decided it did not want to keep substantial stocks of Cherry Europes - particularly as dealers were also holding enough stocks of the Italian-built cars.

So about 200 new Cherry Europes were sold through various auctions. Nissan pointed out that such a method of disposing of excess stock

was common in the motor industry and that Nissan UK placed minimum prices on the auctioned cars - "they were not given away."

Despite criticism levelled at the Cherry Europe by some Nissan UK dealers, who were expected to do more pre-sale preparation work on them than Japanese cars normally need, the networks has sold 2,703 this year compared with 2,054 in the same period of 1983.

The Alfa Romeo dealer network desperately needed a new small car to replace the Alfased, which was dropped from the range last year. As a result, by the end of October Alfa's unit sales in Britain had nearly halved, from 7,084 to 3,715.

Alfa hopes to sell about 1,500 to 2,000 Arnas in the UK next year. The car derives its name from Alfa Romeo Nissan Autoveicoli, the joint company based in southern Italy, which combines a Nissan Cherry bodyshell with the Alfa flat-four engine, transmission and front suspension once used in the Alfased.

Output of the joint company should be about 30,000 cars this year, of which 6,000 to 7,000 will be exported either to Alfa or Nissan dealer networks outside Italy.

TSB Trust launches motor insurance policy

BY ERIC SHORT

THE TSB TRUST Company, the insurance and investment subsidiary of the Trustee Savings Bank group, is widening its non-life insurance operations by entering the motor insurance market.

Its motor insurance policy will appear next spring underwritten by Royal Insurance (UK). Mr Mike Ramsey, TSB Trust's marketing director, said it would be a totally up-to-date product and priced competitively, but he would give no further details of the contract.

TSB Trust entered the personal non-life insurance market in June 1979 with the launch of its home insurance, buildings and contents policies, which introduced some new concepts into house insurance. The company now has about 160,000 persons insuring either their homes or contents or both, of which about half are in connection with TSB house mortgage loans.

The motor insurance policy, like the house insurance, will be available from TSB retail branches and will not be confined solely to TSB members. The TSB will also use other direct marketing outlets.

This month, the Bank of Scotland became the first clearing bank to offer its own motor insurance contract, also underwritten by Royal Insurance, to customers using its bank network.

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TECHNOLOGY

SWEDEN INVESTS IN AUTOMATION

Road computers

THE SWEDISH National Road Administration is spending £20m on installation of a large computer network which will contain all its engineering, planning and administrative information.

The government funded body is responsible for maintaining and operating the Swedish road network which has about 410,000 km of roads. It also plans, designs and constructs new roads. The main problem for the organisation, employing about 9,000 people, is that it is very dispersed operating on three levels — a central headquarters, 31 regional and road building divisions and more than 300 small teams working throughout the country. Though some computing systems exist at the Administration's headquarters, it wants to allow the regions and small sites to have access to engineering design and planning information stored on the central

computer. The administration has come to the UK based Butler Cox consultancy for advice on designing and building the system which it believes will take until the end of the decade to complete. The system will have about 90 terminals and about 65 small computers throughout the country. Within each office, users will have the facility for local computing, extracting information from the larger central computer, word processing and the transmission to telex and electronic mail services.

This month, the road authority began discussions with software and hardware suppliers on the finalising the specifications for the systems which will be based on a network of microcomputer interconnected via a communications system.

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EUROPEANS PLAN A RE-USABLE ARIANE ROCKET

How to cut the cost of space flights

BY PETER MARSH

SPACE engineers in Western Europe are considering a winged, re-usable version of the successful Ariane rocket as the basis of the continent's next foray into launch-vehicle technology.

The development would take a lead from work in the U.S. in that the first stage of the new rocket would glide back to earth in the same way as the space shuttles built by the National Aeronautics and Space Administration.

Planners at the 11-nation European Space Agency (ESA) are examining proposals for the new vehicles as a way to cut costs. The recoverable first stage of the rocket would be based on an expensive cryogenic engine which uses a particularly powerful combination of fuels, liquid oxygen and liquid hydrogen.

Due to the costs of developing such engines, ESA planners argue, it becomes useful to consider recovering the devices by bringing them back to earth. This is an alternative to the conventional strategy of rocket launches in which all the stages of the vehicle are jettisoned after they have pushed a payload such as a satellite beyond the atmosphere.

A consortium of industries has just finished a study for ESA on the possibilities of the new rocket, which could be developed by the late 1990s. The consortium included Aerospatiale of France, MBB-Ernst and Dornier of West Germany, Britain's GEC Avionics and Aeritalia of Italy.

ESA engineers hope for a decision on building the new launcher within the next year. According to ESA officials, development of the winged rocket would be more expensive than that of an equivalent expendable vehicle. But because launch costs are reduced, the work would start to cut costs after about 25 flights.

Costs for building a winged launcher based on a recoverable first stage and expendable second stage are put at \$2.3bn. In contrast, to develop a new, more powerful version of the current Ariane that is based on expendable stages would require \$1.8bn, according to ESA planners.

Launch costs are estimated at \$52m for the conventional form of the rocket and \$33m for the launcher based on the more novel technology.

Publication of the consor-

tium's study comes at a time when ESA is considering its strategy for the next 10 years. The agency must agree by the end of January whether to co-operate with the U.S. in the latter's plan to build a permanent, manned space station by the mid-1990s.

Already under discussion is a proposal by the French space agency (CNES) to develop a new form of Ariane called Ariane-5. This would have a large, powerful cryogenic engine called HM60 in not the first but the second stage. But, as with the conventional liquid-fuelled engines of the current series of Ariane rockets, the stage would be burnt up in the atmosphere after its fuels are consumed in orbiting a payload.

In today's version of Ariane launchers, the first two stages use engines which burn ultra-dimethyl hydrazine and nitrogen tetroxide.

CNES engineers have proposed for Ariane-5 three possibilities, all of which feature HM60. The least ambitious proposal includes, as a first stage, engines based on those used in the first two stages of the current Ariane.

Other derivatives, says CNES, could use new, solid-fuel engines in the first stage or could dispense with old technology altogether and use HM60 engines in both the first and second stages.

In planning for first-stage recovery, engineers must tackle the aerodynamics of bringing this part of the rocket safely to earth. The velocity of the first stage after its fuels are consumed would be 1.5-2 km/sec. It would be on a ballistic trajectory some 400 km from its launch base at ESA's rocket centre in Kourou, French Guiana.

At this point, small air-breathing engines on the first stage would start up, to guide the vehicle back to the launch pad. These turbojets would operate in much the same way as the engines on any other automatic aeroplane, for instance, the V-1 guided missiles developed by Germany during World War II.

According to ESA workers, to design the craft so it can re-enter the earth's atmosphere safely at this high speed should present no special problem, though expertise in Europe in dealing with this technology is thinly spread.



The winged version of the conventional Ariane will have an expensive cryogenic engine in its recoverable first stage

Terminals

Networking system

DATAPOINT MICROSYSTEMS of Tring, Herts., mainly known for its hand-held data communications terminals, has launched a network/polling system that will allow almost any make of terminal, fixed or portable, to exchange information with the company's computer (various makes) and a database created by the system.

Called Commstar Information Centre, the system will both take and deliver information from anywhere in the network, including the company's computer, queue it if necessary on a twin Winchester disk system and deliver it to the right person at the earliest opportunity. It is essentially an information exchange that enables the full potential of portable workstations to be realised.

Salesmen, for example, can leave their terminal plugged into a dial-up phone line having keyed into it the day's sales orders and any questions that need answering. The terminal will be polled at a specific time, its data extracted and the necessary information from the centre loaded into it, for attention by the salesman when he returns to the terminal. As well as being an exchange or message switch, Commstar contains database facilities able to furnish all the administrative needs of a sales or stock audit department. More on 044282 6634.

Conference

Cellular radio

OYEZ SCIENTIFIC and Technical Services is to organise two conferences on communications subjects soon.

On February 7 and 8 next year a national conference on cellular radio will be held at the London Marriott hotel, specifically looking at the UK scene as about the time the two new services will be starting up. User benefits will be emphasised.

On February 22, a one day event will examine second and third generation private automatic telephone exchanges at the London Hilton. More from Louise Marriott at Oyez on 01-236 4080.

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Communications

Data switch

GANDALF TECHNOLOGIES has introduced the PACX 2000, a data switch based on 16 bit microprocessors and designed to handle the networking requirements of intelligent devices and systems dispersed throughout a company.

Portions of the PACX 2000 can be distributed to handle local information exchange on a departmental basis, reducing cabling requirements and saving money.

The system provides a means to link together individual personal computers, terminals, word processors, printers and other devices so that they can communicate with each other. More on 0925 818484.

Robots

Industrial inspection

THE VIDISCAN robot vision inspection system, just launched by Eriach Engineering is to be jointly marketed in the UK by Bruders Precision Presses of Dunstable (0582 576167).

Vidiscan takes images from inspecting television cameras and analyses a selected frame in about 20 milliseconds. It can then look for variables such as distance, angles, areas, tones or colours and compare with standards stored in its memory. In this way the system can count, sort and measure to pass or fail products, and can control the manufacturing process.

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These are only some of the company's many remarkable achievements. Control Data is a world leader in supercomputers and there are smaller systems to bring unique benefits to industry and commerce. It is the world's largest independent supplier of computer peripherals. In the manufacture of magnetic disks and tapes, in industrial skills training and computer-based education, in banking and financial services, and in assistance to small business, Control Data has used its technologies to establish a unique position in the world of high technology.

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FINANCIAL TIMES

Wednesday November 28 1984

Design, Construct & Engineer
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Stratford-upon-Avon CV38 2QJ 024288**State cash injection for Van Doorne**

By Laura Raun in Amsterdam

VAN DOORNE Transmissie, the automatic transmission maker which has been on the brink of bankruptcy, will be bailed out by the Dutch Government, which will provide a cash infusion and purchase Borg Warner's unwanted stake.

The Dutch Economics Minister, Mr Gijb van Aardenne, refused to disclose the amount of the short-term bridging aid or the price paid for Borg Warner's 24 per cent share in Van Doorne. Van Doorne has said it needed £140m (\$117m) to move into mass scale production by next June. The Tilburg-based company said it had not been notified of the amount of the Government's assistance but was satisfied with the solution.

Borg Warner, which initially put up £15m when Van Doorne was established in 1979, had asked for £130m for its stake but had hinted that it would settle for £150m or possibly less. The Chicago-based car component maker declined to say how much it received.

The Dutch Government already owns 40.15 per cent of Van Doorne as a result of its 12.5 per cent direct participation and 27.65 per cent through Volvo Car, an affiliate of Volvo of Sweden in which the Dutch Government owns 70 per cent. Fiat of Italy and Borg Warner each hold 24 per cent, while the remaining 11.85 per cent is held by Volvo through Volvo Car.

The Economics Ministry plans to sell the Borg Warner 24 per cent stake to a third party. The semi-governmental Corporation for Industrial Projects has said it would be interested in purchasing the stake if financing were guaranteed, mass production capability were assured, proper management were installed and shareholders' rights were clearly delineated.

Terry Dodsworth in New York and Ian Rodger in London look at Tenneco's \$430m bid

Harvester deal that could end the lean years

THE TAKEOVER of International Harvester's (IH) farm equipment business by Tenneco should lead to an early improvement in market conditions in North America. The restructuring of the European assets of IH and Tenneco's J. I. Case subsidiary, however, could take many forms and considerable time.

Mr James Ketelsen, chairman of Tenneco, said yesterday that the company's \$430m bid could go ahead without the IH plants in France and West Germany.

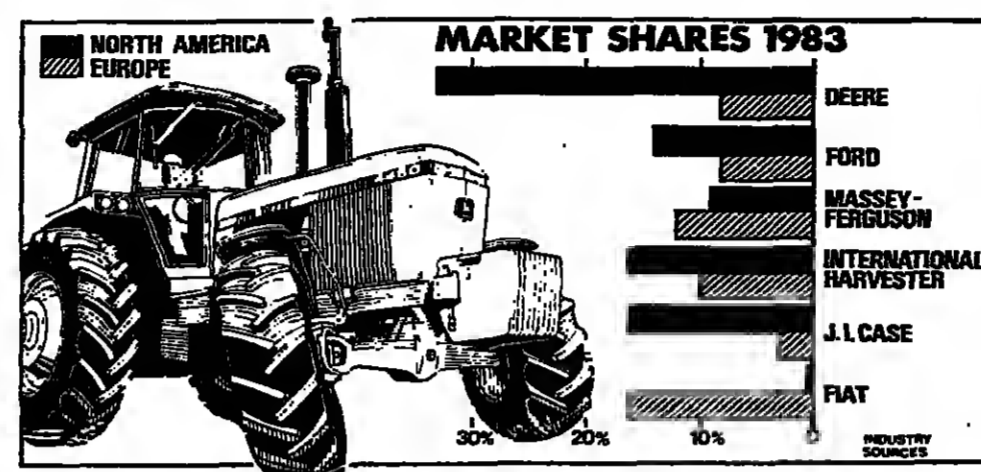
Engines for both lines would be supplied initially by Case, and subsequently by Cummins Engine, which is in a joint venture with Case that is beginning to produce a

new series of power units. This means that the IH plant at Neuss in West Germany would stop supplying engines to Doncaster.

These arrangements leave unsettled the future of the Case (and IH) presence in the over-100 horsepower tractor market in Europe. Case has no significant share in this market, but it is a very important part of the IH business in Europe. Presently, the company makes large tractors at Neuss and at St-Dizier in France.

Mr Ketelsen said Tenneco had an option to buy the French and German plants of IH at no additional cost, but whether or not it exercised that option depended on negotiations in those countries. He pointed out that a recent refinancing of IH France, in which the French Government was to participate, was called off when the Tenneco deal took place. He did not know whether that deal would be offered to Tenneco.

As for the British operations of Case and IH, which include two large dealer networks as well as the plants, he said that "there may be some scope for making better use of the combined resources." Some observers fear that one result of the merger may be that some dealers



will decide to switch to importers.

In the U.S., Case emerges with its product line very much reinforced and broadened. It adds a range of combines made at the IH plant in East Moline, Illinois, along with a range of other IH implements made at Hamilton, Ontario. It will also get the machinery to make cotton pickers from IH's Memphis plant, which was in the process of being closed.

In addition, it has acquired the tooling and production lines from

IH's large tractor plant at Rock Island, Illinois, which is to be closed. Case said this equipment would be transferred to its own tractor plant at Racine, Wisconsin, which is operating at only around half its capacity. Case sold 7,700 large tractors in North America last year, IH 7,600.

Tenneco is also buying IH's network of 1,700 dealers in the U.S. and back-up services. This triples the number of dealers available to

Case, bringing its network close to the size of Deere & Company, the industry leader. Mr Ketelsen said he expected a 15 per cent reduction in the number of dealers.

The tepid reaction of Wall Street to the transaction underlines both the risks involved in the deal and the uncertainties about the outcome. There could be substantial rewards for Case if it can rationalise effectively and if the market improves. Mr Ketelsen hoped that the

takeover, together with a planned two month shutdown at Racine in February and March, would be enough to restore balance to the U.S. tractor market. If so, Case could be back in profit by the fourth quarter of 1985.

Mr Ketelsen said he hoped the Case/Harvester combination would have a U.S. market share of around 35 per cent, against Deere's 40 to 42 per cent. The U.S. market, which will take about 85,000 units this year, would never again approach the 170,000 units of 1979, but he expected it to recover to perhaps 120,000 in a good year.

Other major tractor makers were surprised and delighted by the announcement. Most had long since given up hope that any major producer would abandon the overcrowded farm equipment industry. Massey-Ferguson, which, like IH, has been in severe financial difficulty in recent years, said it welcomed moves to achieve further rationalisation in the industry.

Deere said it was too early to predict the outcome of the merger. "The farm end industrial equipment markets have always been very competitive and our planning is based on the assumption that this will continue," a spokesman said.

Canadian utility hit by jump in charges

By Bernard Simon in Toronto and Robert Gibbens in Montreal

HYDRO-QUEBEC, Canada's largest power utility and a major borrower on international capital markets, suffered a CS 123m (U.S.\$93.1m) loss in the three months to September 30 due to a sharp increase in interest and depreciation charges.

The utility, which is owned by the province of Quebec, posted a net profit of CS61m in the third quarter of 1983. Revenues rose from CS778m to CS808m.

A Hydro-Quebec official said yesterday that the group had warned lenders last year that its 1984 earnings would be substantially lower than the 1983 profit of CS707m. It forecast earnings this year of CS238m, a figure exceeded by CS20m in the first nine months of this year. The official said that income for the year as a whole is expected to remain at around CS200m.

The commissioning this year of new hydroelectric and nuclear generating facilities has raised interest and depreciation costs, while the application of new accounting guidelines has increased the impact of foreign exchange losses caused by the declining Canadian dollar. Foreign exchange losses rose by CS68m in the first nine months of 1984.

Power sales volumes in Quebec rose by 11.7 per cent in the first nine months compared with the same period last year, while sales outside the province were 14.1 per cent higher, due mainly to extra deliveries to Ontario. Export revenues moved up by 19 per cent to CS463m.

Avco rebuff for Irwin Jacobs

BY WILLIAM HALL IN NEW YORK

AVCO, the U.S. financial and aerospace company which fought off an unwelcome takeover bid last August, has rejected the overtures of Mr Irwin Jacobs, the Minneapolis financier, who now controls just over 12 per cent of the company.

Avco said yesterday that it had received a letter from Mr Jacobs stating that he and his associates continued to believe that Avco shares were undervalued and would like to explore the feasibility of arranging a transaction "pursuant to which Avco's shareholders would realise a premium above

present market value for their shares."

Mr Jacobs, who has been involved in several corporate fights including this summer's manoeuvres at Walt Disney, said he believed that he could secure the necessary financing for such a deal and said that on the basis of his present thinking "an appropriate price level is excess of book value."

Mr Jacobs' letter requested Avco's cooperation in a more detailed investigation of Avco and its affairs by Mr Jacobs and his associates. However, Mr Robert Bauman, Avco's chairman, said that his company had considered Mr Jacobs' request and concluded that no useful purpose would be served by pursuing discussions with Mr Jacobs and his associates.

In the first nine months of its current financial year Avco's net income rose 14 per cent to \$87m and revenues rose from \$2.0bn to \$2.1bn. In August Avco bought back 10.7 per cent of its shares from Leucadia for \$35.75 per share, slightly below the prevailing market price. Avco shares rose 25 cents to \$41 yesterday morning.

Litton makes steady progress

By Our Financial Staff

LITTON Industries, the Beverly Hills-based defence and electronics group, has continued its steady record of earnings growth by lifting first-quarter net profits from \$55.7m or \$1.30 a share to \$67.7m or \$1.58.

The previous period includes a loss of \$4.6m on the sale of most of Litton's discontinued business systems division.

In the fiscal year ended July 31 Litton lifted earnings from continuing operations by 10.5 per cent to \$277.4m.

Northern Telecom lifts capital budget 59%

BY BERNARD SIMON IN TORONTO

UNEXPECTEDLY strong demand has prompted Northern Telecom, the Canadian manufacturer of digital telecommunications systems, to accelerate its capital investment plans, a senior company official told a group of investment analysts yesterday.

The 1984 capital budget has been raised from CS500m (U.S.\$381m) to CS600m, 59 per cent higher than last year's spending. More than a third of the investment is for additional production capacity or the

groups DHS range of central office switches.

Northern Telecom president Mr Edmund Fitzgerald said that sales to Bell operating companies in the U.S. were expected to more than double this year to around CS700m, four times the 1982 level. These figures exclude private branch exchanges (PBXs).

Northern Telecom total revenues are expected to top CS4bn for the first time this year, compared to CS3.3bn in 1983.

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The 20,000 Notes of £5,000 each constituting the above issue have been admitted to the Official List of The Stock Exchange of the United Kingdom and the Republic of Ireland, subject only to the issue of the global Note. Interest is payable annually on 11th December, the first such payment being due on 11th December, 1985.

Particulars of the Issuer, the Guarantor and the Notes are available in the Extel Statistical Service and may be obtained during normal business hours up to and including 12th December, 1984 from:—

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28th November, 1984

All of these securities having been sold, this announcement appears as a matter of record only.

NEW ISSUE

November, 1984



\$65,000,000

Frank B. Hall & Co. Inc.

Subordinated Exchangeable Variable Rate Notes
due November 15, 1994

The Subordinated Exchangeable Variable Rate Notes (the "Variable Rate Notes") will bear interest at the rate of 12.75% per annum through February 14, 1985 and at a variable rate per annum for each quarterly period thereafter equal to the greater of (i) the Three Month Treasury Rate for such period plus 300 basis points or (ii) LIBOR for such period plus 175 basis points, but in no event more than LIBOR plus 275 basis points (provided that the rate of interest for the period from February 15, 1985 through May 14, 1985 will not be less than 12.75%). The Variable Rate Notes are due November 15, 1994, unless exchanged or redeemed prior to such date. The Variable Rate Notes are exchangeable for Subordinated Fixed Rate Notes (the "Fixed Rate Notes") at the option of the Company, in whole but not in part, on any interest payment date up to and including November 15, 1989. The Fixed Rate Notes will bear interest at a rate per annum equal to 12.4% of the Five Year Treasury Rate, determined as of the exchange date. The Fixed Rate Notes will mature five years from the exchange date. Interest on the Variable Rate Notes and the Fixed Rate Notes will be payable quarterly and the first interest payment date for the Variable Rate Notes will be February 15, 1985.

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Notes Due 1994

In accordance with the provisions of the Notes, notice is hereby given that for the six month interest period from 28th November, 1984 to 28th May, 1985 the Notes will carry an interest rate of 9 1/4% per annum. The interest amount payable on the relevant interest payment date which will be 28th May, 1985 is U.S. \$2,435.33 for each Registered Note of U.S. \$50,000.

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INTL. COMPANIES & FINANCE

King of Diamonds gives up chair at De Beers

By KENNETH MARSTON, MINING EDITOR

THE KING of Diamonds is to step down. After 27 years as chairman of De Beers Consolidated Mines, Mr Harry Oppenheimer (76) is to retire at the end of this year. Mr Oppenheimer will, however, be keeping his seat on the board—a position he has held for 50 years.

As expected his place is to be taken by Mr Julian Ogilvie Thompson, the present deputy chairman. Mr Oppenheimer's son Nicky becomes deputy chairman and, no doubt, will eventually take the chair (as did his father and his grandfather, Sir Ernest Oppenheimer) of what may be regarded as the world's biggest family business.

The news of Harry Oppenheimer's retirement comes as no great surprise, following his decision two years ago to leave the chair at the associated Anglo American Corporation of South Africa. He would probably have left De Beers at the same time but for the recession which was racking the diamond world.

The love affair with diamonds began back in 1932 when Harry Oppenheimer, like his father before him, became a diamond sorter. The market, as most others, was still suffering from the aftermath of the 1929 crash. World mine production was cut



Mr Harry Oppenheimer

back but the unsold stocks of rough (uncut) diamonds held by the market controlling set-up, the De Beers Central Selling Organisation (CSO), steadily rose, a scenario similar to that of the past three years or so.

After war service in the Western desert he went into politics winning the seat of his home town Kimberley for the United Party in the 1948 general election. However, it was the Nationalist Party that won the day and Harry Oppenheimer spent 10 years as a member of the opposition.

The death of his father in 1957 ended his political career and he then returned to the family business as chairman of both Anglo American and De Beers.

He never allowed control of the diamond market to slip from the grasp of the CSO during the boom years of 1973-79 when prices of polished gems were overheated by merchants, notably in Israel, hoarding uncut stones as a hedge against currency and other uncertainties.

Today, the CSO is living with a problem similar to that of the depression years of the 1930s. Mine production has been trimmed and to avoid any—unheard of—reduction in prices of rough diamonds the syndicate is holding unsold stocks which had a value of \$1.85bn at the end of last year, when sales totalled \$1.6bn, and which probably remain at this excessive level.

As a man who is part of the diamond dynasty Harry Oppenheimer has remained at the helm of De Beers through the storms of the 1980s recession. To a degree, these storms have now abated, but his ship will need all the expertise of "Yot" Thompson for some time yet.

\$S100m facility for Keppel Shipyard

By Chris Sherwell in Singapore

KEPPEL SHIPYARD, one of Singapore's leading industrial corporations, and four major local banks yesterday agreed on the terms of a \$S100m (US\$46.1m) revolving underwriting facility, the first ever to be arranged in the island state.

The five-year facility marks the "final leg in the overall exercise of restructuring the debt portfolio of the Keppel group," according to the company, and will be used to refinance some of its more expensive borrowings. Earlier this year, Keppel announced a US\$100m commercial paper issue in the U.S.

The facility has won the blessing of the Monetary Authority of Singapore, the government's powerful financial sector regulatory arm.

DBS Bank—like Keppel itself, a government-controlled entity—is one of the four underwriting banks, and will also manage the issue for Keppel. The other three are Oversea-Chinese Banking Corporation (OCBC), Overseas Union Bank, and Tat Lee Bank.

The agency for the issue, and members of the arrangement in Singapore, are Singapore International Merchant Bankers, a joint venture between Schroder Wagg of London and the OCBC group in Singapore. Schroder has previously led the way in this field in Hong Kong.

Under the arrangement, Keppel can borrow up to \$S100m over the next five years by issuing one-month, three-month, and six-month notes. As a sign of its good credit rating, it would pay a prime rate greater than DBS Bank's prime rate in the first three years and not more than DBS prime plus one-eighth percentage point in the last two years.

Apart from the four underwriting banks, six other banks would be invited to bid for the notes as members of a tender panel.

Recovery continues at Pioneer

By ROBERT COTTRELL IN TOKYO

PIONEER Electronic Corporation, the Japanese electronics manufacturer which is a market leader in audio equipment and laser video discs, has reported group net profits of ¥8,070bn (¥32.8m) for the year to September 30. This is a sharp increase on last year's ¥2,250bn, and continues Pioneer's recovery from the ¥3,070bn net loss of 1981-82.

Sales rose by 3.7 per cent, to ¥320.27bn from ¥308.74bn, and profits before tax and extraordinary items totalled ¥19,700bn, an increase of 34.3

per cent over the ¥14,670bn recorded in 1982-83.

Parent company results for the same period show net profits just 0.1 per cent higher at ¥7,140bn, in line with the company's interim forecast. Parent company sales rose by 3.4 per cent, to ¥247.3bn from ¥239.06bn, and profits before tax and extraordinary items by 3.8 per cent, to ¥14,670bn.

Pioneer said it plans to maintain its full-year dividend at 25 cents, and forecast parent company net profits of ¥8bn for

the current year on sales of ¥280bn.

Central to Pioneer's recovery has been the strength of its Laser-Disc video disc format, which most analysts believe will emerge as the industry standard. The company is also one of Japan's largest manufacturers of audio products and car stereo systems.

The sharp rise in group net profits was due to the expansion of the company's visual equipment product line as well as to improved profitability in its overseas subsidiaries.

KLSE eases its rules to regain Singapore business

By WONG SULONG IN KUALA LUMPUR

MAJOR AMENDMENTS are to be made to the rules of the Kuala Lumpur Stock Exchange designed to regain Malaysian business now going to the rival Stock Exchange of Singapore and to stimulate activity on the KLSE, where the industrial index has fallen to a 20-month low.

About 60 per cent of the 250 odd companies on the SES are Malaysian-based and volume on the SES is usually four to five times higher than business on the KLSE.

It is estimated that as much as 20 to 25 per cent of the volume on the SES is done on behalf of Malaysian businessmen who are given better credit facilities and find it more convenient and in some instances cheaper to do business on the SES.

The amendments which would be tabled at the KLSE Annual General Meeting on December 16, are believed to have the support of the Finance Ministry, and the Central Bank, which has indicated to banks that they can now accept

shares as security for loans to clients.

One amendment would allow Malaysian stock brokers to obtain bank facilities by pledging shares held by them on behalf of buyers who have not paid up. Currently, brokers are deemed to have only a lien, but not ownership of such shares.

The minimum liquidity rules, which limits KLSE members from trading not more than four times their brokerage fee received is to be lifted and another amendment allows time bargain contracts, (or settlement contracts) to be traded on the KLSE, as is being done on the SES.

It is also proposed that the brokerage fee charged for the transfer of shares done on the basis of "pass through" deals be reduced from 1 per cent to 1/2 per cent. This would allow Malaysian financial institutions such as merchant banks, unit trusts and co-operatives to transfer shares from one unit to another as cheaply in Malaysia as in Singapore.

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The Sterling Notes in bearer form in denominations of £5,000 and £250,000 in amounts each constituting the above mentioned Sterling Notes and the Dollar Notes have been admitted to the Official List of The Stock Exchange of the United Kingdom and the Republic of Ireland, subject only to the issue of the Sterling Notes and the Dollar Notes, respectively.

Particulars of the Issue, the Sterling Notes and the Dollar Notes are available in the statistical services of Extel Statistical Services Limited and may be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 12th December, 1984 from:

Cazenove & Co.,
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28th November, 1984

INTL. COMPANIES & FINANCE

Third-quarter recovery at VW

BY OUR FRANKFURT STAFF

VOLKSWAGEN, the West German car manufacturer, has cut its group loss to DM 47m (\$16m) in the first nine months of this year from DM 247m in the same period of 1983.

It made a sharp recovery in the third quarter after suffering a group loss of DM 162m in the first half of the year, when it was hit by the national engineering strike.

VW's latest performance has strengthened hopes that it may be returning to profitability after the major setbacks of recent years. With problems in the U.S. and Latin America, and at its Triumph-Adler office products subsidiary, VW incurred a group loss of DM 300m in 1982 and DM 215m last year.

The company, in which the

West German Federal Government and the state government of Lower Saxony each has a 20 per cent stake, omitted a dividend for two years in succession.

VW made a group net profit of DM 51m in the first quarter of this year, but suffered a setback as it lost production of about 180,000 VW and Audi cars during the labour conflict in May and June.

Since then it has been making up some of the lost output through extra shifts, and has also benefited from economic recovery and the strong U.S. dollar.

Group sales reached DM 22,45m in the first nine months of this year, 11.6 per cent higher than in the same period last year. Revenue was boosted by

buoyant sales of dearer models, as well as by the increased D-mark value of dollar earnings.

VW obtained 67.6 per cent of its sales revenue from markets abroad, compared with 62.2 per cent a year earlier.

The VW group produced just over 1.5m vehicles in the first nine months of this year, only 5.4 per cent fewer than the same period last year.

The VW parent company's loss was put at DM 52m in the first nine months. In the first quarter, the Wolfsburg-based parent reported a profit of DM 46m, but a loss of DM 131m for the first six months.

The group increased its workforce by 2.1 per cent to 237,000, with 160,000 in West Germany and 77,000 abroad.

Nestlé puts off \$1bn Euromarket loan

BY ANTHONY McDERMOTT IN VEVEY

NESTLÉ, the Swiss foods group which is seeking control of Carnation in the U.S., is awaiting the decision of the Federal Trade Commission before it concludes negotiations for a \$1bn Euromarket loan to help finance the \$3bn deal.

Mr Helmut Maucher, Nestlé managing director, said of the loan: "We do not need that amount at the moment." The company's current cash holdings are reckoned to be well above \$500m (\$1.9bn).

Mr Maucher said that he was optimistic that the FTC would agree to the acquisition, but he added: "Nothing has been concluded yet."

The FTC's consent order expires on January 7, while the bid date has now been extended, for the fourth time, until December 7. However, some decision on financing may be made when the Nestlé board meets tomorrow.

The proposed \$1bn loan would replace part of the \$2.5bn bridging loan, led by Citibank, which Nestlé considers too expensive. Credit

Suisse First Boston has been mentioned as a possible lead manager for the replacement borrowing, but Nestlé is insisting it will be on "very flexible" terms.

The FTC's objections halted a separate takeover bid by Nestlé for a U.S. company earlier this year. It backed out of a \$525m bid to acquire CooperVision, the contact lens specialists, last July after the FTC raised objections to the deal.

Mr Carl Angst, a Nestlé director, said that the Swiss company had acquired some 70 per cent of Carnation's shares. The deal was announced at the beginning of September, but the FTC is still considering whether the merged company's share of the cocoa-milk market might be excessive.

This could result in the FTC requiring a partial divestment within the U.S. Mr Maucher said, however, that in terms of Carnation "it would never be a big amount, not one-third or one quarter, only small considerations."

Telerate earnings jump 43%

By Our Financial Staff

TELERATE, the fast growing business information company 51.5 per cent owned by Exco, the UK money broker, boosted net income for the year ended September 30 by 43 per cent, and revenues by 70 per cent.

Earnings were \$28.7m, or 85 cents a share, against \$20m, or 48 cents, on revenues of \$114m, against \$67m. The quarterly dividend has been raised to 8 cents a share from 5 cents.

Mr Neil Hirsch, president and chief executive, attributed the advance in earnings to the continuing flow of domestic orders from first-time subscribers and existing users, and an increasing order rate from overseas.

Telerate's terminal base grew to 14,000 worldwide in the year, up from 11,000 the year before. The number of terminals outside the U.S. and Canada rose from 3,000 to more than 4,000.

The number of contributors has also increased, from 300 to more than 400.

Ambrosiano climbs out of the red

By Alan Friedman in Milan

NUOVO BANCO Ambrosiano, the successor bank to the defunct Banco Ambrosiano, managed to break even for the financial year to last June 30. Dr Giovanni Bazoli, the chairman, yesterday announced a 1983-84 profit of L70m (\$37,000), which compares with a L24.9bn loss suffered by Nuovo Ambrosiano in its first 11 months.

The bank is owned by a pool of three public sector and four private Italian banks which stepped in with a rescue package in August 1982, a few weeks after the death of Sig Roberto Calvi, chairman of the collapsed Banco Ambrosiano group.

The nominal L70m profit was struck after bad debt provisions and writedowns totalling L37m. The equivalent writedown for 1982-83 was L89bn.

Dr Bazoli repeated yesterday his desire to pursue a merger of the unquoted Nuovo Ambrosiano group and La Centrale, its financial subsidiary, which is quoted on the Milan bourse and controls the lucrative Banca Cattolica del Veneto. A preliminary study of the complex exercise should be completed shortly, and Dr Bazoli hopes to go ahead with the merger in the first half of next year.

La Centrale, which is 47 per cent owned by the Nuovo Group, made a L27.8bn profit in the year to last June, its first profit since 1981. The subsidiary is an attractive asset which Dr Bazoli wishes to retain and to use as Nuovo's vehicle towards its own stock market quote. La Centrale's break into the black was the result of asset disposals, including its sale last spring of majority control of Credito Varesino, a private bank in Lombardy.

Dr Bazoli said Nuovo Ambrosiano was no longer having to pay excessive interest on deposits to attract savers. "We are in line with other Italian banks,"

NEW ISSUE

This announcement appears as a matter of record only.

November 1984



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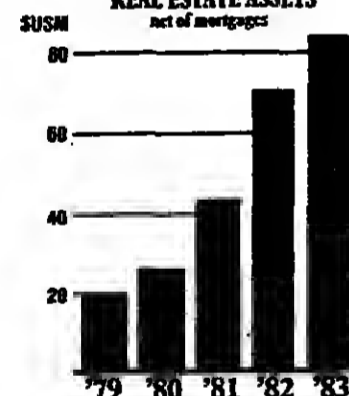
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Mitsui Finance Trust International Limited

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The Tokyo Electric Power Co. Inc.
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Mobil Corporation

has acquired

The Superior Oil Company

We acted as financial advisor to Mobil Corporation.

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November 8, 1984

**Goldman
Sachs**

INTL. COMPANIES & FINANCE

David Buchan reports from Budapest on a Comecon breakaway

Hungary makes bond trade history

A BLONDE sits at a desk, a telephone in front of her and behind her a small Commodore computer and a chart listing some 30 different bonds. There is no great stir of activity—a fur-wrapped matron of some means wanders in to ask about next week's issue, and someone telephones in from Vienna about a (prematuring) Austrian press report that foreign currency bonds will soon be traded in Budapest.

Yet this is history being made. Here, in the marbled hall of what was once a joint Anglo-Hungarian bank and is now Hungary's State Development Bank, is the first bond market in the Soviet bloc. Long considered as Comcon's canniest player on the international money markets, Hungary is doing some innovating at home. Last year, Hungarian companies and municipalities started issuing their own bonds for sale to other companies and individual citizens; this year, secondary trading in these bonds began.

The country is also considering opening its domestic bond market to western investors, according to Mr. János Radnóti, director of the State Development Bank.

The budding bond market is one of the more controversial of the Hungarian economic reforms. But its aims are straightforward enough—to encourage the flow of capital to the more profitable companies, to tap earnings from the fast-expanding private enterprise sector and to widen the choice for the Hungarian investor. So far, the macro-economic effect has been minimal. The 1.5bn forints (\$30m) channelled into bonds up to now amounts to only 2 per cent of what Hungarian companies spend on investment each year, or about 0.5 per cent of total savings.

However, Mr. Zsigmond Jarai, the state development bank's man in charge of bond trading, says: "The demand for the bonds was much greater than the issuers and bankers expected—so we created a market." It is his bank which does the trading, buying bonds and then selling them on a 2 per cent premium. The bank fixes—or at least reviews—bond prices every week, lowering or raising them according to what it judges to be the balance between supply and demand. The rates are then published in the *Heti Világgazdaság* (Weekly World Economy) newspaper.

The bonds fall into two categories, effectively creating two very different markets. The first is for corporate buyers only. These carry a higher rate of interest, currently ranging from 11.25 per cent to 16 per cent, because companies pay tax on such interest. These rates, even net of tax, are still generally above that of inflation, estimated at 8.5 per cent this year. But these bonds have not proved very popular so far. Companies prefer to issue bonds rather than to buy because, as Mr. Jarai says, they are more interested in investing directly in their own expansion or development than in that of a competitor. This psychology may change as companies find that Government restraints on wage increases and capital equipment spending make bonds a relatively attractive haven for spare cash.

If there is a bear market in these inter-company issues, there is a positive bull market in those available to individual buyers. In the latter case, demand so far exceeds supply that trading in many issues has virtually ceased. One reason is that bonds on sale to the citizenry, unlike the others, require Ministry of Finance approval. The Ministry generally approves only issues which generate cash for some demonstrable public purpose—such as the Skala Co-operative's conversion of an old textile warehouse into a much needed department store in part of old Budapest, or the even more needed provision of telephones or laying of gas pipelines in various parts of the country.

There may be a touch of ideology in the Ministry's decisions, to stress the "practical utility of bonds and play down any speculative aspect. But Mr. Jarai emphasises that "at this initial stage of our bond market it must be kept simple and stable." In the past, he says, "what experience Hungarians have had of bonds has not been favourable." Their "war bonds" of the First World War were never repaid, while "peace bonds" of the late 1940s and early 1950s, which Hungarians were forced to buy, were redeemed well below their real value, because of inflation.

But some institutions have been a little too clever in tying their bond issues to provision of a service or good. The south-eastern city of Szeged managed to raise 250m forints (the second biggest issue yet) at only 7 per cent by promising each buyer a telephone within three years. This is far quicker service than most people in phone-starved Hungary can hope for. But the telephones went only to original purchasers. This has virtually killed secondary trading in this issue, which is now trading at 80-82 per cent of par value.

Mr. Jarai would like to see future bond issues offer higher rates of interest rather than services attached. Rates of generally 9-11 per cent on bonds for individuals are, at the same time, not bad, considering that individuals do not pay tax on interest and that rates paid by the savings banks are lower. Perhaps the only way to revive trading would be a sharp jump in the price of those bonds in most demand: at present their market price is only 6-8 per cent above par. That would bring supply and demand together, it might also, awkwardly for the Hungarian authorities, smack of speculation.

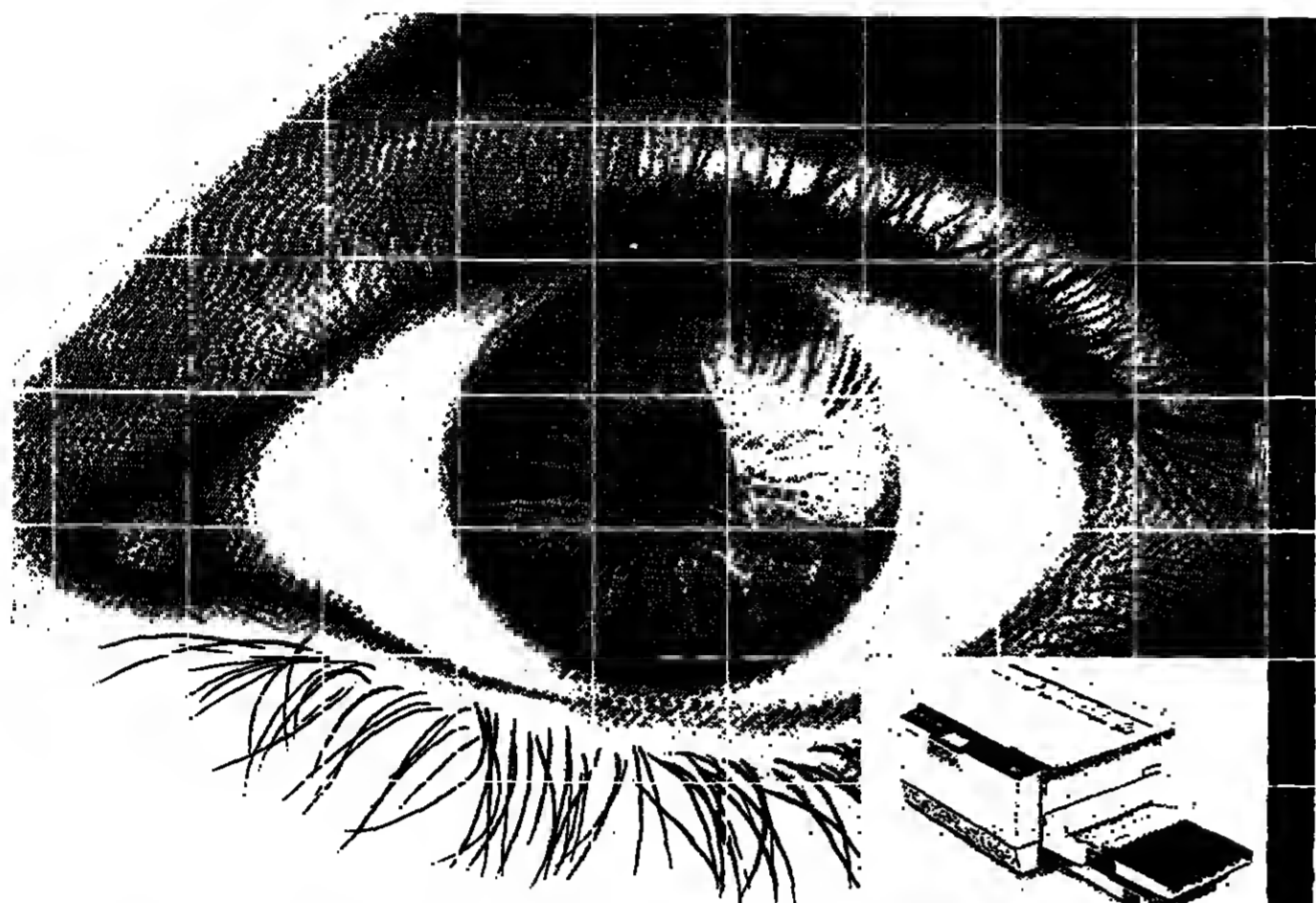
A more acute ideological problem is raised by the issuance of shares, for that suggests in Marxist terms one man owning or reaping the fruits of another's labour. Shares already exist in some Hungarian joint stock companies, but they can only be bought or sold by public enterprises—in other words, the state.

Mr. Jarai expresses his personal belief that "the optimum re-allocation of capital would be served by the creation of shares," but that is a decision for Hungary's politicians. In the meantime, a half measure is being contemplated. This is the proposal by the Pest County Manufactured Goods Company to issue next spring 20m forints of bonds at a floating interest rate. The idea would apparently be to vary the rate according not only to inflation, but also to the profitability of the company. This, Mr. Jarai says, would be "a sort of dividend." It would also give bond holders a limited influence over the company, Mr. Jarai believes, in the sense that they will be checking each year from the annual report to see whether they are getting their money's worth.

How far and how fast Hungary's financial market will develop is impossible to tell. But its beginnings have stirred interest from East and West. Russians, Poles and East Germans have come to Budapest to check it out, while Mr. Jarai will be in London next spring on a British Government sponsored trip to see how the stock exchange there works.



Bond trading in Hungary: investors study the dealing board



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NEW ISSUE

All of these securities have been sold. This announcement appears as a matter of record only.

November, 1984

U.S.\$500,000,000



New Zealand

Adjustable Rate Extendible Notes, Series A

The Notes will be repayable on February 5, 1985, or, if the date for repayment is extended to a Subsequent Repayment Date, on such Subsequent Repayment Date. Each Subsequent Repayment Date must be a date three, six or nine months or one through nine years following February 5, 1985 or the last Subsequent Repayment Date, as the case may be, and prior to November 1, 1994.

The annual interest rate on the Notes through February 5, 1985 will be subject to weekly adjustment on the calendar day following each auction of 91-day Treasury bills, and will be equal to 50 basis points above the 91-day Treasury bill auction rate (expressed on a bond equivalent basis). Thereafter, the interest rate on the Notes for each Extension Period will be designated by New Zealand.

Kidder, Peabody & Co.
Incorporated

The First Boston Corporation
Merrill Lynch Capital Markets

Goldman, Sachs & Co.
Morgan Stanley & Co.
Incorporated

Lehman Brothers
Shearson Lehman American Express Inc.
Salomon Brothers Inc

UK COMPANY NEWS

Beecham soars £15m with Augmentin benefits ahead

THE Beecham Group continued to achieve a healthy rate of growth in the first half of the current year with pre-tax profits reaching £142.5m, an improvement of 12.1 per cent over last year's £127.4m.

The interim dividend is being stepped up from 4.5p to 5.1p net per 25p share. Turnover advanced to £1,090m (£950.8m) — the group's principal activities are pharmaceuticals and consumer products.

Mr Ronald Halstead, the chairman, tells shareholders in his interim report that the most important event of the half-year to September 30 was the successful launch in the U.S. of Augmentin, the group's new oral antibiotic.

He reveals that in its first two-and-a-half months of availability American doctors wrote more than 300,000 prescriptions for the product.

It is pointed out that the first

half figures from America included no profits from Augmentin. Sales totalled about £8m, but profits were set against initial costs.

There will be no exceptional provisions in the second six months to cover the launch costs of the product.

Augmentin is now available in some 20 countries, but a launch in Japan is not expected before early winter next year.

The pharmaceutical activities also made good progress over the half year within established business in the U.S. and continental Europe. This helped to offset the continuing effects of last year's compulsory price reductions in Japan and a drop in UK exports, which was due partly to fluctuations in tender business in certain countries and partly to Nigeria's economic difficulties.

Expenditure on pharmaceutical research and develop-

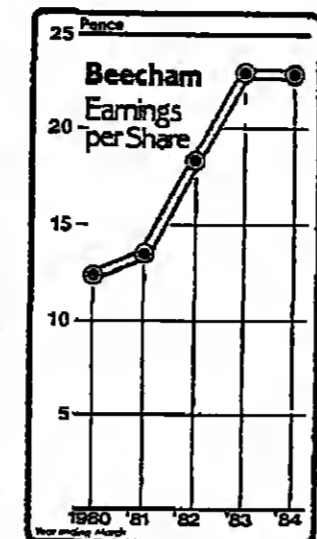
ments, which is concentrated mainly in the UK, continued to increase.

The consumer products business was buoyant in nearly every major market, with particularly strong performances being achieved by the Western Hemisphere proprietaries operations, the food and drink division in the UK, and the international division in the Middle East.

The cosmetics business in the U.S. began to expand again after two difficult years, and the companies acquired to form the new home improvement products business came fully up to expectations.

Pre-tax profits for the opening half were struck after deducting interest charges of £10m (£5.4m). Tax took £12.6m more at £62.7m but minorities were little changed at £0.4m (£0.3m).

Available profits amounted to £78.7m (£77m). Earnings per share on a net basis totalled



RONALD HALSTEAD, chairman of Beecham

have increased by £56.6m and pre-tax profits by £7.7m.

Group pre-tax profits for the 1983-84 year improved by £30.8m to £267.5m. The final dividend was 5.5p.

See Lex

Mr Cartier hots up bid battle for Cullens

By Alexander Nicoll

THE RAPID fire of bids for Cullen's Stores, the loss-making grocery and off-licence chain, continued yesterday with an increased £8.2m offer from Mr Lewis Cartier and Mr David Cuddeon. And the battle moved further into deadlock, with yesterday's bidders commanding 34.6 per cent of Cullen's voting equity and three former Imperial Group executives, who offered £7.5m on Monday, having irrevocable undertakings covering 32.4 per cent of the voting equity. Both of this week's bids are increased from last week.

The third bidder, a consortium formed by former Asda stores chief Mr John Fletcher, was the Cullen's board's recommendation last Friday with an initial £7.39m offer. It holds only 10 per cent of the voting shares, 20 per cent of the non-voting, and has no irrevocable acceptances.

Cullen's board, headed by Mr Peter Cullen, yesterday withdrew its recommendation from the Fletcher offer and said it was considering the competing bids. It offered no recommendation to shareholders on their immediate course of action.

The stores group's shares continued to anticipate further increases in bid terms. The voting shares gained 5p to 49p against the 46p cash alternative offered by Mr Cartier and Mr Cuddeon. The ex-imperial team, headed by Mr Peter Matthews, is offering 44p and Mr Fletcher 42p.

The non-voting shares fell 5p to 37p against bids of 34p, 34p and 30p respectively.

All three bidders are offering a mix of cash and shares in new companies they have formed, with full cash alternatives.

Mr David Cullen, who resigned from the Cullen's board this year after disagreements over policy, has pledged the 24.5 per cent family holding for which he speaks to the Cartier offer. In addition, clients of GT Management have irrevocably undertaken to accept, bringing the Cartier total to 34.6 per cent of voting equity and 18.6 per cent of non-voting.

The Matthews team's offer has won pledges from the Cullen's pension fund, Cullen's directors, Provincial Insurance and Basset Trust, bringing its total to 32.4 per cent of voting and 17.4 per cent of non-voting shares.

Several more blocks of shares are held by institutions which are now being earnestly courted by the competing bidders. Mr Cartier, who sold a chain of supermarkets to Tesco in 1979 for £20m, has a two-prong plan with Mr David Cullen to develop the larger supermarkets owned by Cullen's, as well as a chain of off-licences.

The Matthews team plans to retain Cullen's up-market image but to transform the group—now suffering heavy losses—into a chain of convenience stores.

Courtaulds up £7m despite static volume sales in UK

Courtaulds pushed taxable profits up by £6.8m to £54.3m over the six months to end-September 1984 on turnover ahead at £1,048m compared with £974.4m. The company says that in comparison with the interim period last year there was little change overall in the volume of sales from the group's businesses in the UK, although fibre exports to markets outside Western Europe were lower.

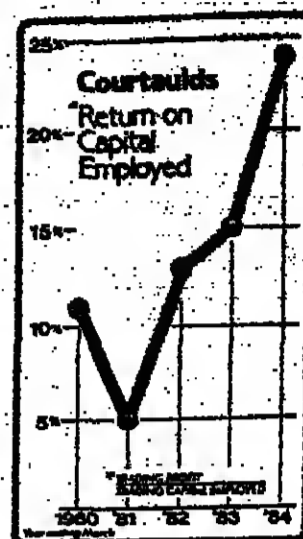
Increased prices in both home and export markets were generally sufficient to maintain or improve margins, except in some of the company's UK fibre businesses where a reduction in profits reflected some decline in the strength of demand. Additional costs, the directors say, were also incurred as a result of national industrial disputes.

Operating profits from UK operations fell from £28.8m to £26.3m. Overseas, Courtaulds saw a rise in sales was attributable to improvements in both volume and price, as well as to an increase of £21m due to exchange rate movements.

The improvement in overseas profits from £25.5m to £28.3m, after a £1.8m reduction due to exchange rate movements, principally arose from better trading conditions in North America.

Shareholders will receive a higher interim dividend of 1.4p (1.2p) than last year's 1.2p. The 1983-84 year Courtaulds achieved taxable profits of £117.2m (£83.5m) on turnover of £2,048m (£1,911m).

In the 1983-84 year Courtaulds achieved taxable profits of £117.2m (£83.5m) on turnover of £2,048m (£1,911m). The tax on profits of £12.5m (£11.8m) in the first half year, on turnover of £203.5m (£179.9m).



Tax took £12.5m (£10.3m), giving a net balance of £42m (£37.4m). Minorities amounted to £4m (£3.5m).

A breakdown of Courtaulds' operating profits by division shows: (in £m): Fibres £27.8 (£28.3); Textiles £7.5 (£5.3); Clothing £7.1 (£5.8); International £12.5 (£11.2); BCL £8.3 (£5.3); National Plastics £1.9 (£1.3); Miscellaneous £2.2 (£1.4).

In the 1983-84 year Courtaulds achieved taxable profits of £117.2m (£83.5m) on turnover of £2,048m (£1,911m). The tax on profits of £12.5m (£11.8m) in the first half year, on turnover of £203.5m (£179.9m).

See Lex

Rex Williams Leisure heads for USM

By William Dawkins

One of the more colourful in the current queue of USM entrants is Rex Williams Leisure, which provides a snooker and pool operations service to the licensed trade and makes coin-operated tables.

Rex Williams, who has won the world billiards championship 14 times, is chairman of the company, which plans to place about 55 per cent of its equity on the USM next month.

The directors forecast taxable profits of about £165,000 for the year to November. They expect a "substantial increase" in the number of the group's tables sited during 1984-85. Most of the issue proceeds will finance this and other expansion.

The group does not make tables to sell direct to the public and does not operate any snooker or pool halls. Its income derives from a share of the tables' operating income or hire charges. Brokers Margerets and Addison-Brooke are distributing the shares, and dealings are expected to open on December 11.

Schroder Portfolio

The application list for the offer for subscription of participation shares in the Schroder Portfolio Selection Fund has closed and that all applications have been accepted in full. Each class of the participating shares has been admitted to the Stock Exchange Official List.

ICL well on target with £9.6m profit rise

AN INCREASE of £9.6m to £56.1m in pre-tax profit has been achieved by ICL, the computer systems group, for the 12 months ended September 30, 1984. Some £55m was forecast in August by the board with its recommendation to accept the increased takeover offer from Standard Telephones and Cables.

ICL is bringing its accounting date in line with STC, and the current period is running to December 31 and will cover 15 months. No further dividend is being paid, so the total payment is 0.5p, compared with 0.8p.

The board says the results confirm the strong financial recovery made by the group over the past three years. Trading margins showed an improvement in the second half of the year.

There was a positive operational cash flow during the year

and at September 30 group borrowing, net of cash balances, amounted to £38m. This is the same level as 1983 after the redemption of £10m preference shares during the year.

Turnover in the 12 months was up from £346.5m to £396.5m. Depreciation was cut to £87.5m (£93.3m) and interest charges to £12.5m (£15.9m). Tax is substantially higher at £25.9m (£17m), including this year £14.6m deferred and with minorities staying at £800,000, the attributable profit is £29.6m (£38.9m) for earnings of 6.01p (8.71p) per share.

This time there are extraordinary debits £5.5m, comprising costs regarding the merger with STC £1.6m and UK deferred tax resulting from timing differences £3.9m.

STC has reached agreement

with the holders of the 20m outstanding redeemable preference shares of £1 each of ICL for the purchase of the shares. Consideration will be £22.13m and will be met by the issue to the preference holders of about 8.22m new ordinary shares in STC which have been placed on their behalf.

comment

ICL's 21 per cent increase in taxable profits contained few surprises for its new owners or for the market and this left the group at £410m—the same as STC's final offer. An unimpressive 8.3 per cent growth in turnover was in line with the first six months and reflects the continuing weakness in mainframe prices with an associated shift towards smaller distributed

systems. A £900,000 currency gain and further productivity improvements were enough to push up pre-tax margins by a point or so. The recently launched OPD computer-cum-telephone, to be joined next year by the DMI and Estriol mainframes, should restore the sales momentum, even if hefty launch costs—at least £5m in these figures—temporarily restrain margin growth. STC's research department is hard at work seeking applications for converging telecommunications and computer technology, but the market will have to wait until next March for more specific clues as to the combined group's strategy. In the meantime, the City is looking for about £3m pre-tax from ICL in the final three months of this 15-month trading period.

BAT £100m issue completed

Arrangements have now been completed for the issue by BAT International Finance of £100m 101 per cent guaranteed notes 1991, under the guarantee of BAT Industries, at an issue price of 98 1/2 per cent.

The Stock Exchange has admitted the notes to the Official List subject only to issue of the temporary global note.

This is the largest issue to date by a corporate borrower in the fixed rate eurosterling market. It is being made as part of a continuing programme to achieve an appropriate balance of short and longer term debt for the group, following its acquisition of Eagle Star earlier this year. Proceeds will be used to retire an equivalent amount of shorter term debt.

Lead manager to the issue is S. G. Warburg. Brokers are de Zoete & Bevan.

Investment Company

The Investment Company has pushed up its profit before tax from £477,000 to £590,000 for the half year ended September 30, 1984, and is raising its interim dividend from the equivalent of 0.35p to 0.44p net.

Total income for the period came to £432,000 (£401,000). There was a surplus of £301,000 (£170,000) from changes of investment. After tax £199,000 (£146,000) the net revenue was £481,000 (£331,000) for earnings of 2.02p (1.5p) per share.

Buyer for two machine makers

A consortium of businessmen has bought S. A. Monk, the Sutton in Ashfield concern which specialises in new and refurbished knitting machines, and William Cotton, the Loughborough textile machine builder, from the receiver for between £2m and £3m.

The group, led by Mr John Kenyon, financial director of N. Brown Investments, a quoted mail-order company, also includes Mr David Alliance, chief executive of Vantage, Virella,

one of the country's four large integrated textile concerns. All members of the group have joined in their private capacity.

Mr Kenyon said yesterday that the consortium had bought the assets and had been assisted by one of the four High Street banks.

It has also taken over George Woodcock, a Hawick repairer of machinery, and Orbit Weaving Machinery of Blackburn, both subsidiaries of Cotton.

Cotton's workforce was

severely cut under the receiver-ship from about 220 to 35. Monk has 170 employees and Woodcock 40. Orbit has no more than a handful of workers.

It is probable that much of Cotton and Monk will be rationalised on to Monk's Nottinghamshire site near Mansfield.

Cotton's development team, which has a high reputation, will be kept in Loughborough.

Mr Kenyon said that no more redundancies were envisaged.

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英国日産自動車製造会社が
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取決めを行ないました。
これにより同工場建設に
要する資金調達の第一段階
が完了しました。

To discover which finance house has won the Nissan contract, see opposite page — unless you can read Japanese.

KWIK SAVE
We expect to maintain rate of expansion

Kwik Save increased its number of stores last year to 385. In addition, five Freezer Centres were opened, and at least 15 should be trading by next August.



Highlights of the year are:

- Turnover up 15% to £641m
- Profit before tax up 16% to £31.8m
- Total dividend up from 3.5p to 4.1p per share
- Earnings per share up from 9.38p to 11.66p
- "Rate of expansion is expected to be maintained and we anticipate trading in over 420 stores by August 1985."

KWIK SAVE

Copies of the Report and Accounts will shortly be available from the Company Secretary, Kwik Save Discount Group PLC, Warren Drive, Prestatyn, Chwyd LL19 7HU.

UK COMPANY NEWS

Second half setback cuts John Carr's growth rate

TWO FACTORS have led to a setback in the second half of John Carr's growth rate. The first was a 1.25p drop in the share price from 1.45p to 1.30p, which was a result of a 1.25p drop in the dividend from 1.45p to 1.20p. The second factor was a 1.25p drop in the share price from 1.45p to 1.30p, which was a result of a 1.25p drop in the dividend from 1.45p to 1.20p.

In the first half of the current year, Carr is introducing a new range of wooden windows and patios, and is to manufacture aluminium windows for the first time. Its ability to cope with these changes cannot be in doubt, given the company's long-standing reputation for effective management and the way it has successfully integrated its latest acquisition, Sharp Bros and Knight, into the group. However, the costs of the upheaval mean that this year's profits are likely to mark time. Assuming profits of £8m pre-tax and a 38 per cent tax charge, the shares, up 1p to 65p, change hands on a p/e of over 9. They are fully-valued.

Credit Gold

A compulsory winding up order made against Credit Gold and Securities on November 13, was rescinded in the High Court on November 15 and the petition was dismissed by consent.

Rothmans tobacco volumes decline

HIGH DUTY increases continue to have an unsettling effect on the tobacco industry throughout the world says Sir David Nicolson, chairman of Rothmans International, in his interim statement.

While the group made satisfactory progress in a number of markets over the six months ending September 1984, overall volumes were slightly below the comparable period. Despite this, Sir David says that profitability of Rothmans' tobacco business was improved.

Pressure on Allied-Lyons margins

INCREASES in all three divisions have lifted taxable profits of Allied-Lyons, the brewer, winter and food manufacturing group from £80.5m to £100.5m for the 26 weeks ended September 15 1984.

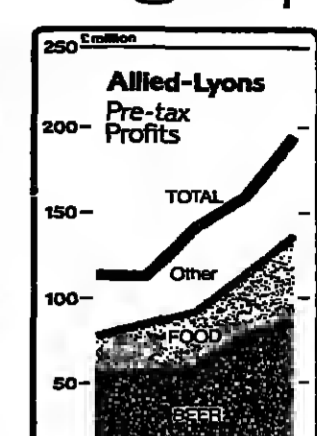
Competition for volume remains acute with a consequent pressure on margins, the directors state. Cost reductions will continue, while the group's performance in the second half will depend on consumer spending power and the Christmas trade. They anticipate, however, a satisfactory outcome for the year as a whole.



Sir Derrick Holden-Brown, chairman of Allied-Lyons... satisfactory year's outcome anticipated

The interim dividend is lifted to 2.6p (2.42p)—last year's final payment was 4.59p.

Turnover for the 26 weeks expanded from £1.48bn to £1.8bn and after depreciation up from £30.7m to £35.2m, trading profits emerged £8.2m higher at £106m.



The pre-tax figure included profits of the disposal of properties and investments, doubled at £10.9m (£5.2m), investment income £0.8m (£0.8m), related companies share, £12.6m (£11m), but were after finance charges £5.3m higher at £28.6m.

adverse net effect of exchange rates on foreign currency borrowings. They say that this year should see the peak effective rate of tax in the transitional period for the changes in UK corporation tax introduced in the 1984 Finance Act.

Another 89 companies wound up

COMPULSORY winding up orders against 89 companies were made in the High Court. They were:

- Frank Rushton, Greville Creative Group, Reker Imports, Regal Fabrications (Coventry), Sessegon & Co., and Land and Mineral Developments Company.
- K. J. Couch Electric, George Goff (Motor Engineering Services), Kerrchoise, Monague & Taylor, Pollard Motor Engineers, S. C. Hopton, A.E. Printing, Dixon Howard Hotels and Kitchen.
- Felicitia Travel, Souvex Investments, Raymere Engineering, Scottvision, Barak, J. Gallagher (Contractors), The Mind's Eye, Rell Dewey Automatic Development Manufacturing Co., and Picton Developments.
- Picturedrome Bingo Club, Carreg Homes, Michael Willis, Afford Rent-A-Car, A.S.A.P., Oomino Displays, Flaxtree, and Invicta Process Systems International.

Channel Tunnel

Channel Tunnel Investments has held its earnings per share at 0.09p in respect of the first half of 1984. Profit fell from £2.215 to £1.899, but there was also a reduction in tax from £540 to £570.

The profit was made up of interest on government stock £7.381 (£6.081) and bank interest £150 (£20), less administration expenses £5,632 (£3,886).

Tax for the six months amounted to £283,000 (£148,000).

COURTAULDS PLC

Interim Results

Unaudited results for the half year to 30 September 1984 are:-

1983/84			1984/85
1st Half	2nd Half		1st Half
£m	£m		£m
973.4	1,064.7	Turnover to External Customers	1,038.2
438.1	479.1	Turnover to UK Customers	441.7
202.5	230.0	Exports from UK (including inter-group)	216.5
362.1	386.6	Turnover Overseas	412.2
28.8	43.9	Operating Profit — UK	26.3
25.3	29.5	— Overseas	32.3
54.1	73.4	— Total	58.6
1.1	1.0	Share of Profits of Related Companies	1.9
(7.5)	(4.3)	Interest Payable net of Investment Income	(6.2)
47.7	70.1	Profit on Ordinary Activities before Taxation	54.3
(2.0)	(5.2)	Taxation — UK (including ACT £2.3m)	(2.4)
(8.3)	(12.9)	— Overseas	(9.9)
(10.3)	(18.1)		(12.3)
37.4	52.0	Profit on Ordinary Activities after Taxation	42.0
* (5.3)	(6.5)	Minority Interests	(4.0)
* 32.1	45.5	Courtaulds Shareholders' Interest	38.0
(0.1)	—	Preference Dividends	(0.1)
* 32.0	45.5	Courtaulds Ordinary Shareholders' Interest	37.9
*9.26p	12.00p	Earnings per Ordinary Share before Extraordinary Items	9.99p

* Restated to reflect the issue of Courtaulds shares for International Print shares

The breakdown of the Operating Profit between Product Groups is as follows:-

1983/84	1984/85		1983/84
£m	£m		£m
30.8	38.1	Fibres	27.6
5.8	7.2	Fabrics	7.5
3.8	12.3	Clothing	7.1
11.2	8.4	International Paint	12.5
5.8	6.5	BCL	5.3
1.3	1.6	National Plastics	1.8
(4.6)	(0.7)	Miscellaneous	(3.2)
54.1	73.4		58.6

UK Trading

By comparison with the first six months of 1983/84, there was little change overall in the volume of sales from the Group's businesses in the UK, although fibre exports to markets outside Western Europe were lower.

Increased prices in both home and export markets were generally sufficient to maintain or improve margins, except in some of the UK fibre businesses where a reduction in profits reflected some decline in the strength of demand. Additional costs have also been incurred as a result of national industrial disputes.

Overseas Trading

The rise in sales by the Group's businesses overseas was attributable to improvements in both volume and price, as well as to an increase of £21m due to exchange rate movements.

The improvement in overseas profits, after a £1.8m reduction due to exchange rate movements, principally arose from better trading conditions in North America.

Dividend

The Board has declared an interim dividend in respect of the 1984/85 year of 1.40p net per Ordinary Share (1983 1.20p) — gross equivalent 2.00p (1983 1.714p) — to be paid on 9th January 1985 to shareholders on the register on 27th November 1984. The cost of the interim dividend after deducting ACT is £5.3m.

COURTAULDS PLC
18 Hanover Square, London, W1A 2BB

D. C. Pimlott, Secretary
27 November 1984

IN BRIEF

Sharply improved profits of £377,000 against £171,000 before tax have been produced by Sakers International for the six months to the end of September 1984, and Mr G. D. J. Hay, chairman, says that current levels of activity and the present order book are strong and the directors remain confident about the outcome for the full year.

The net interim dividend of this furnishing manufacturer has been lifted from 0.25p to 0.6p. In the last full year a total of 1.23p was paid from pre-tax profits of £345,000 (£130,000). First-half earnings per share were shown as rising from 1.64p to 3.6p.

Despite a higher turnover of £151m, against £134m, clothing manufacturer Sumrie Clothes made an increased pre-tax loss of £13,000 in the half year to September 29 1984, against £94,000 last time. Loss per 20p share rose from 3.76p to 6.92p.

The board has resolved to postpone its policy of acquisition in order to concentrate on returning the manufacturing business to profitability in the near future. The proposed acquisition of Sparrow, announced in June, will not proceed and Mr Dennis Weathers, the production director, has resigned.

The board is implementing a stringent programme of measures with a view to improving margins during the second half.

Pre-tax profits of Seagram Oilsters, subsidiary of the Seagram Co., jumped from £3.5m to £13.19m in the six months to July 31 1984 on turnover of £130.37m, against £92.96m. The result benefited from an acceleration of shipments to overseas markets.

Net interest payable increased from £5.4m to £6.9m. Exchange losses rose sharply from £0.34m to £2.68m and tax was substantially higher at £5.39m (£0.29m). Earnings per share were 17.2p against 11.2p before a £1.37m extraordinary charge.

Murray Technology Investments is estimating a reduction in earnings from 0.65p to 0.25p for the year to March 31 1985, and warns of a cut in the dividend — last year it paid 0.6p.

For the six months ended September 30 1984 net revenue fell to £74,000 (£50,000), after tax £26,000 (£18,000) and including dividend and interest received £78,000 (£264,000).



FORWARD TRUST GROUP

A member of Midland Bank Group

November 1984

Forward Trust Group is pleased to announce that it has arranged a leasing facility of £50,000,000 on behalf of Nissan Motor Manufacturing (UK) Limited, to finance the development of a new automotive factory in Washington, Tyne and Wear.

This concludes the first phase of the financing of manufacturing plant.

Spiff in 15

Better terms sought
on Iceland
credits, Page 36

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SECTION III - INTERNATIONAL MARKETS

FINANCIAL TIMES

Wednesday November 28 1984

WALL STREET

Rate falls bring in the buyers

FURTHER signs of a weakening in short-term interest rates brought some institutional buyers to Wall Street yesterday, and the stock market rallied at mid-session when President Reagan said he would bring the Treasury's new tax proposals before Congress early next year, writes Terry Byland in New York.

Stock prices were also helped by a reduction in broker loan rate by U.S. Trust to 9 1/4 per cent, the first time this rate has been below 10 per cent for some time.

By 3pm the Dow Jones industrial average was up 10.15 at 1,222.5.

The move by Chase Manhattan to cut prime rate to 11 1/4 per cent, thus opening up a spread against those banks which elected a 1 1/4 per cent rate, was taken coolly. The credit sector moved narrowly in thin trading, despite a dip in the federal funds rate to below 9 per cent.

The financial market believed that prime rates of 11 1/4 per cent were fully justified by the falls in money market rates - some analysts are looking for prime at 11 per cent. Stock in the financial sector remained in favour, but rates on near-dated certificates of deposit

edged higher, indicating that the fall in the cost of money to the banks may be slackening.

The Federal Reserve again entered the markets, announcing \$10n in customer repurchase arrangements when the federal funds rate stood at 8 1/4 per cent. Credit markets, which hope to see further easing in Fed policies, were pleased to see the board act when funds were below 9 per cent. But market traders remained cautious. They faced an auction of \$8.5bn in one-year bills yesterday, following the sale of \$13.8bn of bills at the regular Monday auction, and more Treasury demands later in the week.

The White House plan to overhaul the U.S. tax structure, which appears to call for substantial cuts in both personal and corporate tax rates, found a cautious reception on Wall Street. The only significant response came from municipal bonds, where the tax-free advantages would be diminished if personal taxes fell. Municipal bond prices lost 1/4 or so, but the rest of the market was content to await the protracted debate of the plan in the Congress.

In the stock market, blue chips turned easier again at first but steadied at mid-session. Leading oil stocks were quieter after their shake-out. But there was further selling of the smaller, domestic oil industry issues.

Motor stocks resumed the upward trend the originally greeted the cut in the federal discount rate, which is expected to set the stage for stronger car sales. General Motors stood out, 5 1/4 up at \$77 1/2.

Chase Manhattan put on \$ 1/4 to \$3 1/4 after breaking ranks with its prime rate

cut. Other bank issues continued to respond to lower money market rates which swelled bank earnings. But the thrift groups gave up a little of their recent gains.

Improved profits at Litton Industries, the defence and electronics group, were taken coolly, and the stock held unchanged at \$84 1/4. But a warning on profits in the second half of the year took \$2 1/4 off General Instrument to \$18 1/4. The omission of a quarterly dividend by Western Union, the communications group, had been foreshadowed by the board, and the stock edged up \$ 1/4 to \$11 1/4.

With the Fed funds rate apparently stabilising below 9 per cent, credit markets settled around their recent levels. Three-month Treasury bills at 8.35 per cent shed four basis points. The bond market gave up an early advance and settled down to await the Commerce Department's latest index of leading indicators, due tomorrow. The price of the key long bond was little changed at 103 1/4.

LONDON

Selective support fuels record

SELECTIVE institutional support and a virtual absence of sellers ahead of British Telecom's debut next Monday fuelled a 3.2 advance by the FT Industrial Ordinary index yesterday to an all-time high of 925.3.

Proceedings were occasionally enlivened by company trading statements, with Beccams up 13p to 386p in response to its mid-term results. Courtalds initially turned easier after its interim announcement but picked up to end 1p higher at 123p. Allied Lyons closed 5p lower at 164p.

The market in government stocks suffered from a lack of funds while sterling's recent weakness proved a further deterrent. Gilts eased 1/4 before regaining part of the losses after the announcement of the latest U.S. prime rate cuts.

Chief price changes, Page 28; Details, Page 29; Share information service, Pages 30-31

TOKYO

Drug makers spur sense of security

A STEEP rally by drug makers, favoured by speculators, brought a bright note back to the Tokyo market yesterday for the first time in many sessions, but trading did not remain active throughout the day, writes Shigeo Nishiwaki of Jiji Press.

The Nikkei-Dow market average declined by more than 17 at one stage but closed 21.16 higher at 11,184.12. Losses still outpaced gains 388 to 307, with 187 issues unchanged. Volume expanded to 365.08m shares, from Monday's 255.20m.

Amid dull transactions, some speculators traded incentive-backed issues within a low price range of Y300 to Y500.

Sumitomo Light Metal advanced Y14 to Y394, reflecting increasing demand for aluminium magnetic discs, while Central Glass, which is making a fully fledged advance into fine ceramics, added Y20 to Y419.

A rise in demand for semiconductor manufacturing equipment pushed Nissin Electric up by Y31 to Y700.

Among speculative leaders, Nippon Denko and Pacific Metals went up Y33 each to Y853 and Y553, respectively.

Stocks with off-the-book assets also found purchasers. Mitsubishi Warehouse rose Y17 to Y332, but Nippon Express shed Y1 to Y345 under profit-taking pressure, on the day's second highest volume of 15.17m shares.

Toward the close, some drug makers which had been easing in recent sessions staged a major rally. Mochida Pharmaceutical finished at a bid price of Y11,370, up Y500, in a turnabout from Monday's daily limit loss of that amount. The sharp gain reflected rumours that the company had acquired a sales right to an anti-cancer agent from Hayashibara Biochemical Laboratories.

This unleashed buying of other pharmaceutical stocks. Daiinippon Pharmaceutical, which had lost Y120 on Monday, soared Y260 to Y5,560. Kaken Pharmaceutical jumped Y180 to Y4,300, and Daiichi Seiyaku added Y30 to Y2,100.

Non-life insurance issues firmed on small-lot foreign buying, with Sumitomo Marine and Fire gaining Y23 to Y575 and Tokio Marine and Fire Y11 to Y687.

Bond prices spurred in anticipation of a further drop in U.S. interest rates. City and trust banks, investment trust houses and some government financial institutions purchased long-term government bonds in lots of Y5bn to Y10bn each. But supply and demand nearly balanced as many other financial institutions placed sell orders worth Y2bn to Y3bn apiece.

The yield on the benchmark 7.3 per cent government bond due in December 1993 moved down to 6.855 per cent compared with 6.88 per cent on Monday, while the 7.3 per cent issue maturing in January 1994 fell from 8.78 per cent to 6.7 per cent.



EUROPE

Downward pressure dominates

CONFIRMATION emerged yesterday that the gains achieved by the European bourses at the start of the week's trading, but which were already coming under pressure by Monday's close, could not be sustained in the face of an uncertain course for Wall Street and world currencies.

Frankfurt was one of the many centres to show a weaker result in thin volume, and news of strong October surpluses on West German trade and current account provided little spur.

Foreign investors remained largely absent, but some issues managed a slight recovery from the day's lows. Good earnings figures from Bayer and VW none the less left the chemical issue DM 1.50 lower at DM 183.50 and the car maker down DM 2.10 at DM 195.30.

Engineering issues did better than most, taking Linde DM 2 higher to DM 382 and KHD up DM 1.20 to DM 247. On the high-technology side, PKI featured with a DM 7.50 gain at DM 646.

A steady domestic bond market allowed the Bundesbank to sell DM 19.4m in paper.

An afternoon revival in Amsterdam failed to take hold, and quiet dealings left only isolated gains. Among these was a F1 1.30 rise for Amev to F1 197.70, a two-day advance of F1 4.90 to a year's high. Gist-Brocades reversed a 50-cent opening loss to end with a F1 1.90 advance at F1 161.70.

Bonds were little changed ahead of a state loan tender.

A softer Zurich tone extended to most sectors, with electricals and insurances holding up best. Nestlé eased SwFr 15 to SwFr 5,280 as it reported on revenues and acquisition plans, while Ciba-Geigy reacted just SwFr 20 downward to SwFr 2,440 on its move for a swift withdrawal of a drug line.

The retail sector led Paris lower, with Au Printemps off FFf 5.60 at FFf 193.90. In chemicals, Air Liquide was unaffected by an EEC fine for competition infringements, putting on FFf 5 to FFf 581.

Institutional support remained for Milan and allowed an actively mixed outcome, with good after-hours demand. Pirelli Co gained L95 to L3,255 and insurer Generali L250 to L31,830, but Italcementi slid L850 to L64,000.

Bonds tended easier.

A mixed to lower Brussels showed a BFR 190 setback in Gevaert at BFR 3,500, attributed by one operator to possible disappointment at the day's movement by Bayer, in which it holds a minority stake.

Solvay, also a recipient of an EEC fine, did show an adverse reaction - off BFR 55 to BFR 4,115.

The pace of the newly established Stockholm revival quickened, and a foreign buying presence was noted. Blue chips retained their leading role.

Copenhagen showed strength among banks and insurances, but industrials generally eased. Novo turned DKr 25 lower at DKr 1,365.

Utilities lead a Madrid retreat, resisted by the food and construction sectors.

KEY MARKET MONITORS				
End Month Figures				
FT-Actuaries All-Share Index				
1979	1980	1981	1982	1983
200	300	400	500	600
Dow Jones Industrial Average				
1979	1980	1981	1982	1983
1000	1200	1400	1600	1800
FT-Industrial Ordinary Index (All-Share)				
1979	1980	1981	1982	1983
800	900	1000	1100	1200
STOCK MARKET INDICES				
NEW YORK Nov 27 Previous Year Ago				
DJ Industrials	1,222.50	1,212.95	1,277.44	
DJ Transport	535.21	531.78	610.43	
DJ Utilities	145.11	144.65	137.52	
S&P Composite	166.77	165.55	167.18	
LONDON				
FT Ind Ord	925.3	922.1	746.7	
FT-SE 100	1,178.0	1,172.3	980.9	
FT-A All-share	558.62	554.57	480.59	
FT-A 500	608.14	605.46	495.84	
FT Gold mines	559.8	576.8	545.0	
FT-A Long gilt	10.13	10.11	10.18	
TOKYO				
Nikkei-Dow	11,184.12	11,162.96	9,340.85	
Tokyo SE	846.18	846.99	687.92	
AUSTRALIA				
All Ord.	752.5	765.5	738.4	
Metals & Mins.	443.7	457.8	540.3	
AUSTRIA				
Credit Aktien	58.52	n/a	54.06	
BELGIUM				
Belgian SE	150.21	158.5	125.8	
CANADA				
Toronto	1,950.4	1,972.4	2,428.0	
Metals & Mins	2,387.8	2,399.4	2,495.4	
Montreal	118.81	118.16	123.02	
DENMARK				
Copenhagen SE	166.98	168.93	195.78	
FRANCE				
CAC Gen	181.2	161.7	148.7	
Ind. Tendence	120.8	121.7	94.5	
WEST GERMANY				
FAZ-Aktien	371.29	373.22	345.1	
Commerzbank	1,086.1	1,092.1	1,029.2	
HONG KONG				
Hang Seng	1,112.73	1,113.66	830.12	
ITALY				
Banca Comm.	218.47	216.43	193.06	
NETHERLANDS				
ANP-CBS Gen	177.8	178.4	143.2	
ANP-CBS Ind	140.0	139.7	113.7	
NORWAY				
Osto SE	271.62	283.81	198.51	
SINGAPORE				
Strait Times	837.85	854.43	945.47	
SOUTH AFRICA				
Gold	n/a	1,070.7	757.8	
Industrials	n/a	969.0	892.0	
SPAIN				
Madrid SE	143.92	144.76	124.73	
SWEDEN				
J & P	n/a	1,333.66	1,472.46	
SWITZERLAND				
Swiss Bank Ind	375.8	368.0	358.1	
WORLD				
Nov 26	183.9	185.4	181.4	
Capital Int'l				
GOLD (per ounce)				
Nov 27	Nov 26	Nov 25	Nov 24	Nov 23
London	\$333.75	\$337.00	\$337.00	\$337.00
Frankfurt	\$333.25	\$336.75	\$336.75	\$336.75
Zurich	\$333.25	\$337.25	\$337.25	\$337.25
Paris (Baring)	\$333.76	\$336.49	\$336.49	\$336.49
London (Baring)	\$333.20	\$336.20	\$336.20	\$336.20
New York (Dec)	\$327.40	\$331.50	\$331.50	\$331.50
COMMODITIES				
Nov 27	Nov 26	Nov 25	Nov 24	Nov 23
London	\$27.175	\$27.175	\$27.175	\$27.175
Silver (spot fixing)	610.50p	610.50p	610.50p	610.50p
Copper (cash)	£1,139.50	£1,112.00	£1,112.00	£1,112.00
Coffee (Nov)	\$2,300.00	\$2,358.00	\$2,358.00	\$2,358.00
Oil (spot Arabian Light)	\$27.175	\$27.175	\$27.175	\$27.175

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هنا ابن القليل

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(continued) JAPAN (continued) JAPAN (continued)

[illegible]

AMERICAN STOCK EXCHANGE PRICES

[illegible]

Centric	25	4 ₁	4	4 ₂		ElcPnt	66	19 ₁	19 ₁	19 ₁		Intnd
Cetus	221	9 ₁	9 ₂	9 ₂	- ₃	ElMod	00	12 ₁	11 ₁	10	+ ₁	Intgn

[illegible]

هكذا عن القليل

2 WT 20p	43	+2	12.87	2.9	3.8	12.1
roap	46	+1	12.7	2.2	3.8	12.1
Wet 10p	28		12.5	2.2	7.8	4.5
Jan. 21	28		12.5	2.2	7.8	4.5
10p	94	-1	12.5	3.5	3.8	10.6
Wet 10p	57	+1	12.5	2.5	4.8	10.6
Wet 10p	32		12.5	3.6	3.8	10.6
Universal	53		12.5	3.6	3.8	10.6

FINANCIAL TIMES SURVEY

The growth of venture capital has been rapid. Setbacks are inevitable in the future but there is little doubt that what is seen as a vital spur to entrepreneurial activity and economic recovery is here to stay.

Venture Capital

Lending that helping hand

By Tim Dickson

TEN YEARS ago—following some ill-fated investments by merchant banks in the late 1960s and early 1970s—“venture” capital in Britain was a dirty word. Five years ago it was still in distinctly short supply. But today thanks to a remarkable change of sentiment anyone looking for money to start or expand a small business can be overwhelmed by the choice.

Stockbrokers, accountants, merchant banks and other financial institutions have been falling over themselves recently to get involved with an industry which is rapidly expanding, which is seen as dynamic and providing a key stimulus to economic revival, and which holds out the prospect of substantial rewards for those that approach the opportunities in the right way.

Venture Economics, the London-based research consultancy, reckons that there are now about 90 individual venture capital management groups in

Britain, compared with perhaps no more than 20 serious “players” just five years ago. (Our specially prepared list within this survey records more than 150 separate sources of money for unquoted businesses.)

Since 1979 around £500m is estimated to have been raised from institutions and private investors specifically for venture capital (more than half of this in the last 18 months). But the figure would obviously be much greater if the amounts made available by 31 (the Investors in Industry Group) and other established institutions which make investments of their own bats were taken into account.

This relatively sudden surge of enthusiasm—which has certainly gathered pace in the last two years—can be attributed to a number of factors. Notable among them is the Government’s emphasis on small firms, its range of incentives to encourage entrepreneurs and the spectacular example of “venture” backed business in

the U.S. in the late 1970s and early 1980s, such as Tandem Computers, Federal Express, Apple Computer and LSI Logic. Besides the increasingly strong commercial appeal of venture capital, many financial institutions (notably the pension funds) were goaded into action by politically motivated criticisms that they were not prepared to take a long-term view of investment.

While money for small businesses is much more widely available in Britain than ever before—providing a vital spur to entrepreneurial activity—there are reasons for treating the current venture capital frenzy with caution.

Too narrow

Many City of London institutions which claim to be “venture capitalists,” for example, are in fact highly risk averse; there is so far little evidence that the returns on recent investments will emulate the significant gains chalked up by risk capital specialists in North America; while recent experience on the West Coast of the U.S. vividly illustrates how quickly euphoria in the venture capital game can turn to despair.

Venture capital in Britain is a far from homogeneous activity—a point reflected for example in widespread debate over “industry” definitions.

Some say “true” venture capital, for example, is equity

finance for start-ups; but the majority of commentators argue that this is too narrow (especially in a UK context) and that most forms of equity related risk finance for private companies up to the point where they are ready for a public listing should be included. (Such later stage financing is sometimes called “development capital.”)

The confusion owes much to the fact that the modern venture capital industry in Britain is rooted in at least two separate traditions. The first can be traced to the pioneering days of ICFI (previously The Industrial and Commercial Finance Corporation) and Charterhouse Development, the two major British institutions which have dominated the market in long-term small business finance for most of the post war years.

Theirs can best be described as the “City” or “portfolio” approach and rests on the ability of investment managers using largely financial skills to “pick winners.” The style is characteristic of most City financial institutions, such as the merchant banks, which have entered the venture capital business on their own account.

The other influence is much more recent and consists of the ideas, experience and techniques pioneered in the U.S. in the early 1970s and introduced to Britain by a small number of American inspired groups such as Venture Founders, APA,

Advent and Thomson Clive from about 1980.

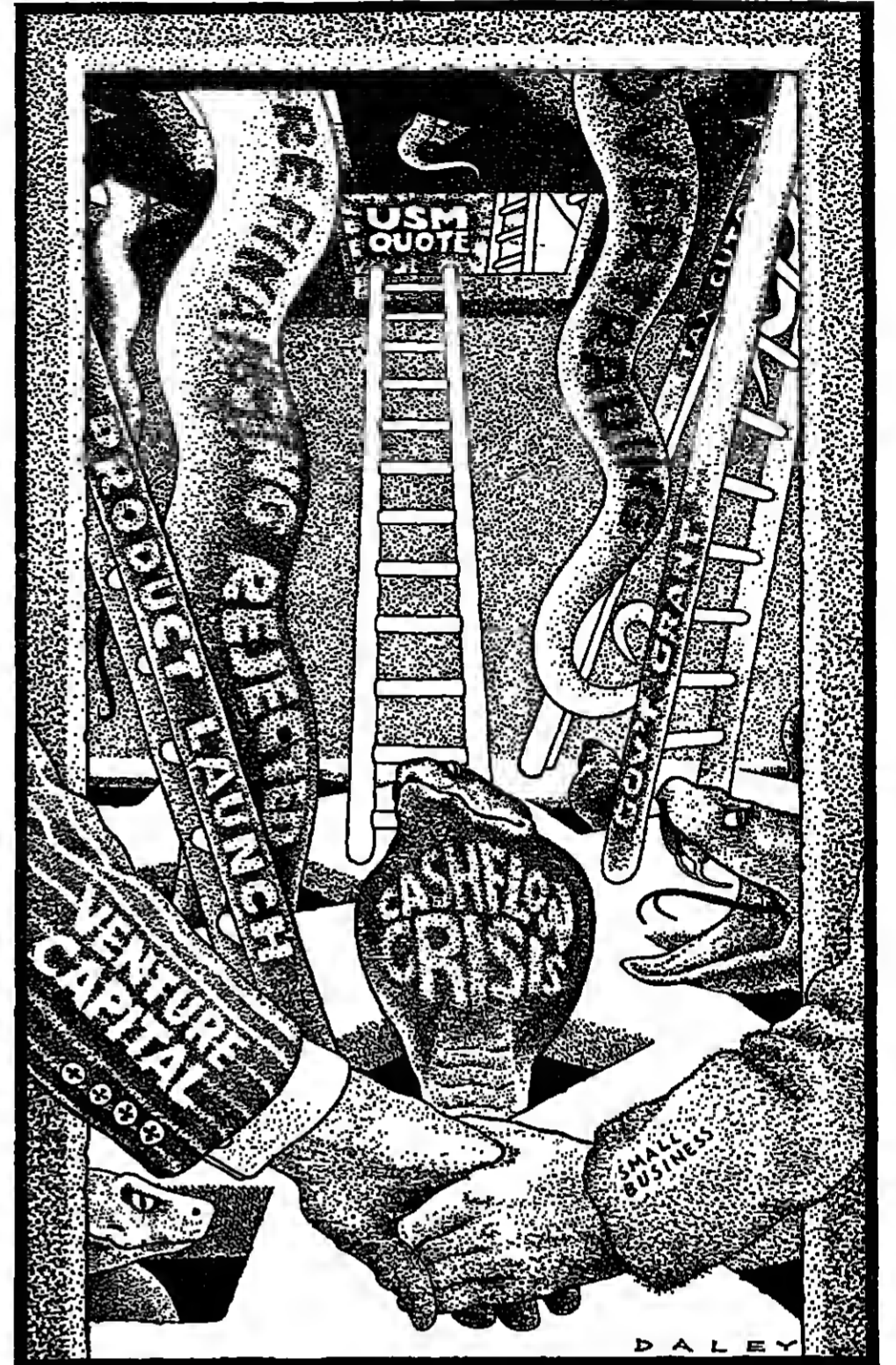
In theory at any rate disciples of this “faith” preach the virtue of a long-term investment horizon (more than five years), see capital appreciation as more important than income flow, and (above all) claim to get actively involved in the management of portfolio companies through supplying market intelligence, useful contacts, and introductions to potential customers.

This “hands on” approach—as it has become known in the fashionable jargon of the day—implies that venture capitalists can “add value” to their investments with marketing and technical skills, not just financial expertise.

Many UK financial institutions new to venture capital and some which have stepped up the profile of a previously low key activity have clearly been impressed by this “transatlantic” theory. How many are actually qualified to put the theory into practice is another matter.

The biggest single impetus to venture capital in Britain in the last couple of years has, arguably, been the Business Expansion Scheme (BES). The BES, which offers private investors special tax incentives to invest in unquoted trading companies, has spawned a whole new breed of funds managed in some cases by groups new to venture capital (notably stock-

CONTINUED ON PAGE 2



FORUM
● The Venture Capital Financial Forum, sponsored by the Financial Times and the British Venture Capital Association, will be held at the Hotel Inter Continental, London, W1 on Monday and Tuesday of next week.

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REPRINTS
● For reprints (priced £1.50), which will include more detailed information on the major sources of venture capital in the UK, contact Nicola Banham, The Financial Times, Bracken House, Cannon Street, London, EC4A 4BT.

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Venture Capital 2

Need to place emphasis on higher risks

Business Expansion

TERRY GARRETT

IF YOU have a proven track record as a successful businessman, attracting new capital to finance expansion plans is usually a relatively painless experience. But for budding entrepreneurs who have yet to win their spurs in the business world, pulling together sufficient finance to get a start can turn out to be such a daunting task.

Many fail at this first hurdle. How many potentially successful businesses have never got beyond the garden shed through lack of finance?

For years young companies have had to rely on a handful of specialist institutions, such as Industrial and Commercial Finance Corporation, their bank

managers or rich relatives to provide cash to see them through their formative years. And for years this "structure" provoked the same sort of complaints—the professional advisers were unwilling to entertain many small propositions that were put to them. High Street bankers simply lacked enough experience and foresight to act as venture capitalists while rich relatives were hard to find and even harder to keep on the right side of.

Thankfully the market place for financing young companies has changed a great deal in the last few years. The phrase "venture capital" has been taken to every financier's heart—though its clear meaning is yet to be really established—and now backing small businesses, especially in high-technology industries, has become the fashionable thing to do.

No longer can young entrepreneurs complain that there is

insufficient sources of capital, though whether today's myriad of bankers and institutional investors are any less rigid in what they consider to be worthwhile ventures than their limited number of predecessors is perhaps more questionable.

The Government has played its part in encouraging this new entrepreneurial spirit across the country. While large parts of the country's industrial bedrock is crumbling, future prosperity (so the politicians' publicity blurb says) must be found in new "sunrise" industries.

But while venture capital investment holds out the carrot of rich rewards, the risks are equally high. Therefore, in the 1983 Finance Act the authorities launched the Business Expansion Scheme offering substantial tax incentives to encourage investors to take more risks by actually diluting the dangers without losing any of the potential rewards.

Under the scheme an individual can claim tax relief against his or her top level of income tax on investments of

new equity in most unquoted UK trading companies up to a maximum investment of £40,000 a year.

So, for example, an investment of £10,000 in a qualifying company or specialist BES fund by a person paying a top rate 60 per cent tax rate on income, would actually only cost a net £4,000. The Government, through tax relief, is indirectly subsidising investment in small companies to stimulate growth, while the attractions for individual investors are obvious in that the amount of capital at risk is in practice greatly reduced.

Plan hatched

When the authorities hatched the BES plan perhaps they envisaged large numbers of local professional people putting up finance to create lots of new local businesses; the local dentist financing a sweet shop perhaps. But the BES is such an obvious tool for venture capitalists to employ that there has been a fair avalanche of specialist funds run by City

institutions. Now if you are involved in corporate finance you have to have a BES fund somewhere to hand.

The specialist funds have understandably been very popular with investors. Not only do they limit the risk by offering BES tax relief but they have the added bonus of limiting risk further by spreading the funds' investments over several companies. A small fund may only have between six or eight investments, one or two of which might conceivably fail but if there is just one real winner in the portfolio then investors can anticipate a healthy capital reward. It may be a classic argument for fund trust investment whether it is unit trusts or investment trusts but of course in this case the tax concession adds a whole new dimension.

So the need to promote extra venture capital was plain, the Government has reacted with a very good scheme and the City institutions and investors in general have responded with an unquestionable degree of enthusiasm. But is it as neat

as that.

If there is a criticism with the BES it is that investment flows may not be going in quite the direction that the Government had originally intended. The more obvious abuses, such as using BES cash for farm weakest point is that most investors by nature are usually cautious.

Many fund managers are still using BES funds to back individuals and companies with established track records. Now this is fine up to a point—after all it is an "expansion" scheme and not a "start-up" scheme. And understandably the fund managers who are responsible to their clients to produce capital rewards, are reluctant to follow very high risk investments.

However, if the scheme is going to be viewed as a success—and not just a tax efficient way for investors to get richer thanks to tax concessions—then funds must be directed into investment opportunities that would otherwise have been viewed as too high a risk for conventional based investment.

Profile: David Cooksey

Raising further £30m

BY TIM DICKSON



David Cooksey

WITH £20m under management at the moment and plans laid to raise a further £30m from private, corporate and institutional sources, David Cooksey's Advent Management is among the highest "independent" venture capital groups in the UK.

Advent's British activities began in 1981 with the launch of the £10m Advent Technology—a fund which is now almost fully committed and which contains 35 investments (20 of them are in the UK and the rest are either in North America or Europe).

The £10m Advent Eurofund followed 14 months later and has 28 investments, all but one of which are also in the Advent Technology portfolio.

Advent's investments include a stake in the Cambridge-based Agricultural Genetics Company which it helped set up with Ultramar and the NRDC in exploit the plant genetics work carried out by certain agricultural and food research council institutes; Enterprise Airtime Systems, a UK company which has developed computer-based marketing systems for selling advertising time; and Xenotron, a Norfolk-based designer and manufacturer of intelligent work stations for the print industry.

Cooksey, who read metallurgy at Oxford before joining the Formica Division of De La Rue, stresses Advent's emphasis on "adding value" to high technology investments, its enthusiasm for "technology transfer" between countries and the group's position in an

international network of venture capital companies started in 1968 by Peter Brooke of Boston-based TA Associates. Besides TA, there are affiliated companies in West Germany, Belgium, Holland, Sweden, Singapore and Japan.

Cooksey has had his ups and downs in the venture capital industry. Elected first chairman of the British Venture Capital Association for 1983-84, he was deeply embarrassed when Interobra—a part of Formica which he acquired in 1971 and developed into a group of companies in the electronics and health care industries—went into receivership in early 1983.

"It obviously took my eye off the ball," he admits today. His mind is now inevitably concentrated on the new fund (to be called Advent Capital). Although institutional enthusiasm for venture capital is not what it was this time 12 months ago, Cooksey says he will be "disappointed" not to reach the £30m target. He expects that up to one-third of subscriptions could come from major corporations which see venture capital as a good "intermediate tool" for backing new technologies.

Profile: Donald Workman

Single minded effort

BY TIM DICKSON



Donald Workman

EX-ICFC area manager Donald Workman is one of a new breed of venture capitalists created by the Government's Business Expansion Scheme (BES). Earlier this year Workman set up the £16m Castleforth Fund with help from stockbrokers Laing and Cruickshank and National Commercial and Glynn, the merchant banking subsidiary of the Royal Bank of Scotland.

In common with most other BES funds he was a shade disappointed by the public's response but he has no regrets about embarking on venture capital management on his own. "There's a lot of competition for deals and I've got to do all the work myself without the in-house experts I was used to at ICFC. But I'm very glad I've done it."

Castleforth, which hopes to be fully invested by Christmas, has so far put money into a video graphics company, a large start up called Deside Aluminium and an established turf grower with a national presence. Workman says he is aiming for a "reasonable spread" and believes that it is "politically" important for his and other BES funds to back at least a couple of high risk start ups in their portfolios.

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CONTINUED FROM PAGE 1

brokers and licensed dealers) and in others by more established players (such as the merchant banks).

More than £40m was raised by managed funds in 1983-84 and despite some signs of a cooling in investor sentiment, at least the same again looks possible for the current year.

Typically, BES funds are relatively small—most have less than £5m under management—which restricts the size of a typical stake. They can only take equity positions (no loan capital) and with one or two exceptions they tend to back the more established companies in minimise the risks to their investors. They represent, however, an important new pool of risk capital in the UK.

If the venture capital industry has been shaped by a number of different influences, who are the main players? Broadly speaking the market can be categorised as follows:
Public sector: The regional development agencies, notably the Scottish Development Agency, have been putting equity into small companies for some time. More recently, local authorities such as West Midlands County Council have turned venture capitalist through the creation of locally funded enterprise boards.

In two years the West Midlands Enterprise Board has approved investments of £6.53m in 22 local companies—predominantly established manufacturing businesses with more than 50 employees.
Pension funds: many pension funds in recent years have opted to use a specialist venture capital intermediary but a few, notably the National Coal Board pension fund through its subsidiary CIN Investments and the British Rail Pension Fund, have made direct investments in unquoted companies on their own behalf. Pension funds have



been driven by a mixture of commercial judgement and political expediency—being anxious to fend off criticism that they are not supporting new industries.

Insurance companies: The Prudential Corporation's decision to set up its Pruventure division this year and commit an annual £15m to this activity is symptomatic of greater interest among insurers. The Pru has been active for some years through Prutech, which makes early stage investments.

Banks: Kleinwort Benson, Lazard Brothers, Robert Fleming, and Baring Brothers are among issuing houses which

have recently lightened their interest in venture capital, in large part because they see the cultivation of small and medium-sized businesses as a rewarding base for corporate finance business. Merchant banking subsidiaries of the clearing banks were first to enter the fray in the early 1970s but many others, notably Citicorp, have become deeply involved recently.

Investment trusts companies: Unquoted companies have played a minor role in many trust portfolios over the years, and a major one in the likes of Electra Investment Trust. Investment companies like

Profile: Kingsley Manning

By Tim Dickson

Highlighting problems in the sector

KINGSLEY Manning is not a venture capitalist. But as managing director of Geyrriers, a 15-month-old consulting subsidiary of the Guidehouse Group, he has been advising small and medium-sized companies backed by some of the new UK venture capital funds. Based on this experience, Geyrriers has been working on its 28th client—32-year-old Manning has some strong views on the UK venture and development capital industry.

Many funds, he says, fall "uneasily" between the heavily involved "hands on" approach and the traditional "hands off" style of the City.

These investment management companies that act primarily as fund managers, he adds, "are often unenthusiastic about very good projects simply because the management team does not meet their standards... what evidence there is suggests that in America the man-

agement of many of the companies that seek capital are removed very rapidly when the company gets into growth. "This is hardly surprising given that the skills and abilities required to start a business are very different from those required to run even a modest sized company."

Adds Manning, who has an MBA from the London Business School and has played a part in the setting up of five small companies:

"The 'hands off' investor's inherently risk averse selection procedure has tended to make it increasingly difficult for them to find suitable investment opportunities."

It has led to increasing frustration among people seeking funds who find the City apparently unsympathetic to projects which are sometimes relatively mature and successful, even before the institutions become involved."

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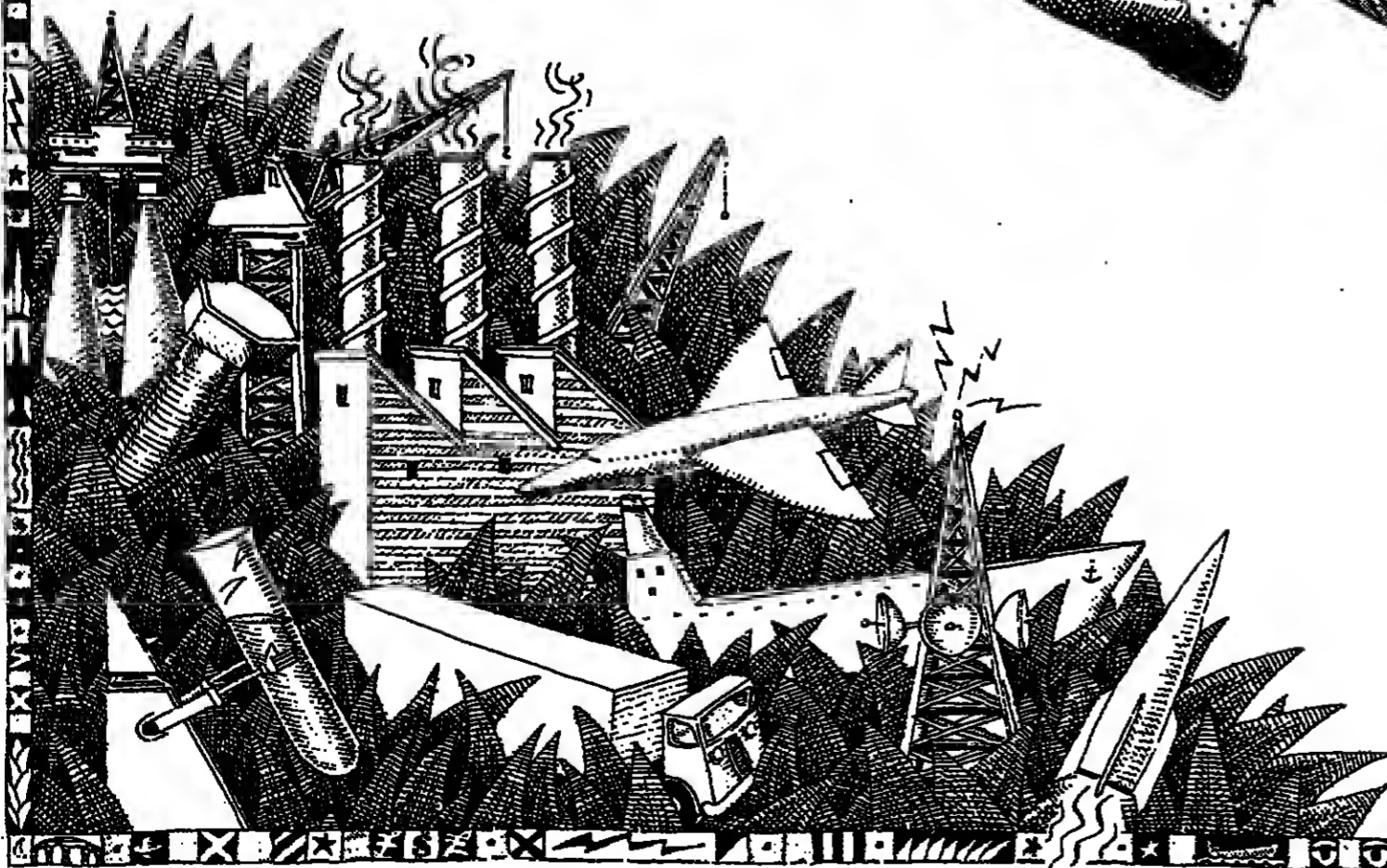
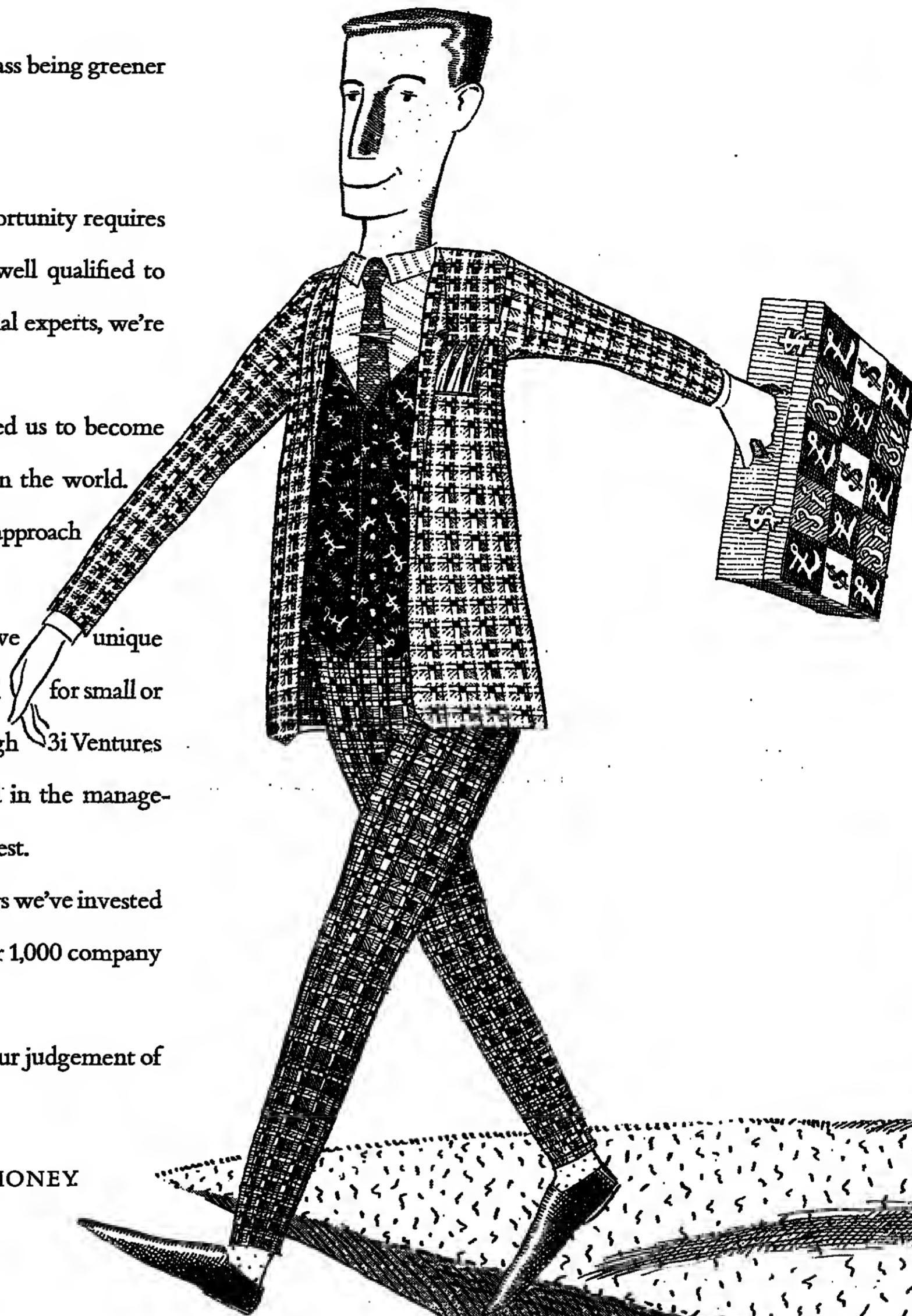
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THE CREATIVE USE OF MONEY



Venture Capital 4

Playing a dual role

THE Unlisted Securities Market and its over-the-counter rivals play the double role of provider and exit route for the venture capital industry.

On the one hand, they have unleashed a considerable flow of equity finance from both institutional and private investors. On the other, they have opened an opportunity for venture capital funds to realise their investments with minimal disruption to the company.

At the same time, the two markets have provided a valuable incentive for management by allowing directors to cash in on their efforts relatively easily. For the same reason, they have made it more attractive for businessmen to start up new ventures in the knowledge that a market for their shares could be on the horizon if all goes well.

"The USM shows entrepreneurs that the potential reward is worth the risk," says Geoff Taylor, director of 3i Ventures. Twelve companies with a 3i investment have joined the USM over the past year and another five—including Oxford Instruments—have gone to a full listing.

The two markets have had an uneasy relationship since the USM was formed just over four years ago, simultaneously benefiting from each other and poaching on one another's territory. While the OTC has channelled a number of companies to the USM, it has also kept many young businesses away from the Stock Exchange. They are unwilling to surrender the Business Expansion Scheme (BES) incentives available to investors outside the Stock Exchange and so which the OTC has thrived.

But the greater status attached to a USM quotation has allowed it to establish an enormous lead over the less officially regulated and—in general—more speculative OTC. More than 300 companies have tasted life on the unlisted market, over 35 of which have gone on to a full quotation. Approaching 375

stocks are currently traded on the USM, with a market capitalisation of close to £3bn.

The OTC markets, by contrast, offer prices in around 120 companies, with a market value of £580m, according to Harvard Securities, one of the biggest licensed dealers. Harvard estimates that 35 companies joined the OTC in the past 12 months, of which 22 qualified for BES tax relief.

That represents a small but significant proportion of the estimated 400 or more companies which attracted investments of at least £75m under the BES in 1983-84. Mr John Moore, Financial Secretary to the Treasury, said earlier this month that well over half of that sum had gone to "young or very young start-up companies."

The USM, which raised £157m in new equity capital for its constituents in the first 10

group's chief executive, says: "It would have been difficult to go for so much money from a smaller group of shareholders."

But Synterials' share price has been devastated since its flotation by larger than expected losses, production problems, and the resignation through ill health of its technical director, who provided the inspiration for the group's production process.

Originally placed at 100p, the shares languished at just 35p at the time of writing. The USM has found it similarly hard to digest other start-up ventures like Bio-Isolates, which makes protein from whey, Immediate Business Systems, a supplier of computerised meter readers and Biomechanics, a maker of equipment for treating industrial effluent.

3i's Mr Taylor argues that they would have had a less humpy time in the private venture capital market with the active management involvement of a handful of institutional investors.

"One shouldn't really think of the USM as a provider of venture capital," he says. "Companies in that state of health need care and attention, which 100 members of the general public cannot provide. They need to become mature and established enough to be waiting at arm's length before they join any stock exchange."

The point is echoed by Mr Robin Hodgson, managing director of Granville & Co., which was a pioneer of the OTC 14 years ago and makes a market in 75 companies' shares with a market value of £200m, the biggest OTC market in terms of capitalisation.

"We seek a flow of high quality family companies which want a low profile approach to marketing shares for independence reasons," says Mr Hodgson. "Smaller high-risk ventures are not for us." Other OTC market makers, however, would not agree with this approach.

U.S.M.
WILLIAM DAWKINS

months of this year alone, includes about 10 companies in that category. Most businesses must have a minimum three-year trading record to qualify for admission to the USM; however, new companies may get a quotation if they have a fully researched project using proven technology.

Yet the generally poor reception they have received from the USM has caused anxieties for the Stock Exchange and invites the question of whether a public quotation is appropriate for companies in the earliest stage of development.

Few of the USM's start-ups have had such an unhappy time as Synterials, a Dutch producer of synthetic industrial materials, which raised £20m in new capital last December, the largest single sum ever raised on the junior market.

Mr Chris Brothie, the



Mr Tony Lorenz of Equity Capital for Industry.

PROFILE: TONY LORENZ BY TIM DICKSON

Enthusiasm rewarded

In 1972 Tony Lorenz's then employer, P.A. Consultants, turned down his idea for an in-house venture capital fund (the board thought it would create a conflict of interest). Between 1977 and 1980 his current employer, Equity Capital For Industry (ECI), turned away a number of promising small business deals in favour of large, and too often ill-fated public company rescue operations.

Over the last four years Lorenz 40, has masterminded a deliberate reshaping of ECI's portfolio to the point where 60 per cent of the £50m invested or committed is in unquoted companies and the bulk of the £20m uninvested cash looks destined for the same sort of homes.

ECI, indeed, is now an identifiable venture capital operation and while it has yet to prove conclusively that it can back winners in the small business game, it looks much more assured of a long-term future than it did even a couple of years ago.

Lorenz's part in this transformation was reflected by his appointment as managing director in April last year,

while his enthusiasm for the venture capital cause was rewarded by his election this year as chairman of the British Venture Capital Association (BVCA).

Lorenz, whose past experience includes spells with the Ford Motor Company as an industrial manager and with Charterhouse Development as an investment manager, was a founding member of the BVCA.

Originally an informal dining club known as the Forum, its formal establishment was encouraged in 1982 by the then Small Business Minister John MacGregor and the Bank of England. There are now 50 full members and 11 associate members of the BVCA, which is attempting to set standards for the venture capital industry as well as performing a much-needed lobbying role with Government.

Notable absentees from its ranks include the development capital subsidiaries of the four major clearing banks, the 3i Group (which includes ICFI), Charterhouse Development and the Prudential Corporation.

Terry Garrett looks at the risks and rewards faced by the providers of two finance packages

Happy but cash hungry

NO MATTER how glamorous the presentation, or how confident the business projection plan, when an institution stacks up £600,000 behind a company with minimal assets, a trading record that has not reached its first birthday and operating in a market of rapidly shifting technology demanding expensive product development, then that is venture capital in its truest sense.

When Industrial and Commercial Finance Corporation put together a finance package for Croydon-based Symbiotic less than two years ago that is exactly the sort of proposition it faced. ICFI's money was undoubtedly at risk despite all its usual efforts to evaluate the company, its products and its potential market.

Yet the willingness to take that risk has been well rewarded. Symbiotic's growth has outpaced expectations and already the company's executives are discussing further capital to finance the next stage of its growth that it is hoped, will culminate in a USM debut within two years.

The company was started early in 1982 by Rodney Cox and Wayne Sayers as a basic Apple micro-computer dealer sharing a retail outlet with a photo-copy shop. It was a comfortable little business but the founders—who had been joined by David Asclford, a young man "born with a Texas Instruments computer in his hand who had just wandered into the shop"—realised that they needed something more to set them apart from the million and one other Apple dealers.

Originally the trio toyed with a product that would allow Apples to access IBM mainframes. But after three months of development it was dropped because the competitor had beaten them to it. So they then turned their attention to Winchester discs. Winchester had been used for years as memory

bases for mainframe and mini computers but micros were still largely orientated towards floppy discs with their limited memory capabilities.

Fortunately about that time micros were taking a much higher profile in the business user market and Symbiotic's product, which simply plugged into an Apple and multiplied the memory capabilities 250-fold, was launched just at the right time.

The young company was fairly swamped with orders. From next to nothing turnover of the Winchester disc product shot to over £80,000 a month by the end of '82. Each unit was then priced around £1,900. The soaring growth had largely been financed through bank

product—local area networking. This enables up to 120 micro computers in one office to be linked into a larger storage device.

The company was one of the first to introduce fibre optics into local network systems to eliminate electrical interference from other office equipment. This helped keep it in the forefront of technology. The system was also adopted for the education market, linking BBC's school micros. In 1983 turnover had risen to £1.1m.

So far around 2,500 Winchester disc units, Symbiotic, have been sold and over 600 local networks, Symbiotic, have been installed. There are also peripheral products such as Symbiotic for regular archiving of information or security copying.

Turnover in the current year should rise to £2.5m and Symbiotic is looking for its next major product development. This will be to push the local networks into regional network systems using modern technology to link a local system to the outside world by telephone lines. But product development is cash hungry, and if the company wants to finance the rapid expansion of its existing range—turnover in 1983 is expected to top £4m—and develop fresh products more money has to be found.

So once again Symbiotic is looking for equity capital. The directors are talking to several venture capital groups though it seems unlikely that ICFI would wish to participate in another round of finance, given its existing 35 per cent equity holding.

This time it will be fresh faces that will put up the £200,000 package. Symbiotic is looking for, though this is now development money and the risk looks nowhere near as great as that taken by the original backers.

Symbiotic

overdraft and supplier credit but it was clear that if the company was going to move ahead it needed a more stable capital base and a considerable shot of fresh equity.

The company approached ICFI at the beginning of 1983. The ICFI team, headed by Chris Masterson, crawled over the company, decided it was going places and invested £500,000. This comprised a package of £300,000 equity money, giving ICFI a 35 per cent stake in the business and an 11-year loan of £200,000. A bank overdraft of £150,000 was also negotiated. Though he had not realised it at the time, one year later Chris Masterson was to join the company's management team.

The cash injection was to rescue the Winchester disc development, give a little more elbow room to working capital and, most important, to allow Symbiotic to develop its next

Heading towards goal

THE PROTOTYPE works. A small team of electrical engineers headed by Brian Atherton and the fund managers of Granville Venture Capital have an excuse for a modest celebration. If all goes well production will start next year of a fully automated machine that could significantly improve production techniques of printed circuit board assemblies. It is early days but AMbotech is on its way towards its goal of an electronics research and development design house with a listing for its shares.

AMbotech is the brain-child of Brian Atherton and his Japanese wife, Noko. He cut his electronics engineering teeth with Vickers during the 50s and early 60s before moving on to spend three years in the Foote research laboratory of Plessey Automation.

With ex-Plessey colleagues he was a founding member of Quest Automation in 1968 but the company had the misfortune to be part of the loan portfolios of banks that went down in the 1974 banking crisis and before Quest came to the stock market Brian Atherton had departed "a disillusioned but wiser businessman."

The desire for a fresh start took him to Japan where he and his wife established a local marketing and market research company primarily serving British companies. Most of the work was on an ad-hoc basis for major groups such as Ferranti.

It was during the four years the husband and wife team

spent scrutinising the Japanese electronics industry at first hand that they took the decision to return to the UK and go it alone with a product in the field of factory automation for the electronics industry.

They did not, however, return to the UK with any preconceived ideas of what exactly their product would be. The Athertons saw 20 British electronics groups to discuss their problems and experiences. The culmination of that research was a three

25 per cent of the capital. The Athertons put in another £40,000 on top of the time, effort and money already spent by them on the project and the other members of the new team subscribed a further £30,000. With the additional backing of a £75,000 grant from the Department of Trade and Industry, AMbotech had sufficient investment to turn the technical drawings into a product—which could crudely be described as an automated method of fitting components to printed circuit boards.

From that point it was up to the four old colleagues, all working from home and linked by micro-computers, to turn out the prototype. Space was sublet in a light engineering factory and by early autumn this year the group had a machine that worked well enough to consider pre-production manufacture for field trials.

Part of its initial deal with Granville had catered for this moment. It was clear from the beginning that a second stage financing would be needed if the prototype was successful. Granville, in equal partnership with British Linen Bank, has injected another £3m of cash. This leaves the Athertons and the original team with 40 per cent of the equity, Granville with 47 per cent and British Linen with the balance.

AMbotech is now in the position to build four pre-production machines which should be in place next April and March with electronic groups that will conduct field trials.

AMbotech

inch "book" setting out the difficulties these companies were facing and what they would look for in a machine that could further automate their production lines.

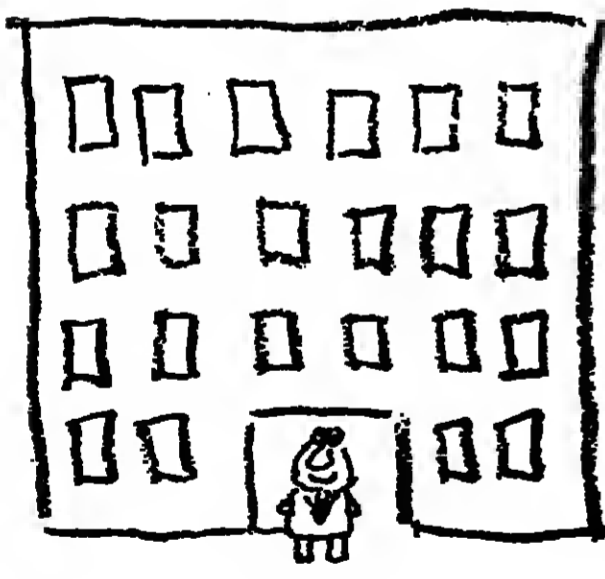
From that document the Athertons synthesised basic specifications for production machine that could tackle the most common problems in printed circuit board assembly. Old colleagues from days at Plessey and Quest were approached to see if the rough design could be turned into a product and at what cost. The result was a positive technical and feasibility study and a business projection plan. The next and crucial step was to find financial backing.

After several blind alleys the couple tried Granville. The upshot was a £210,000 equity capital investment last November giving the venture fund

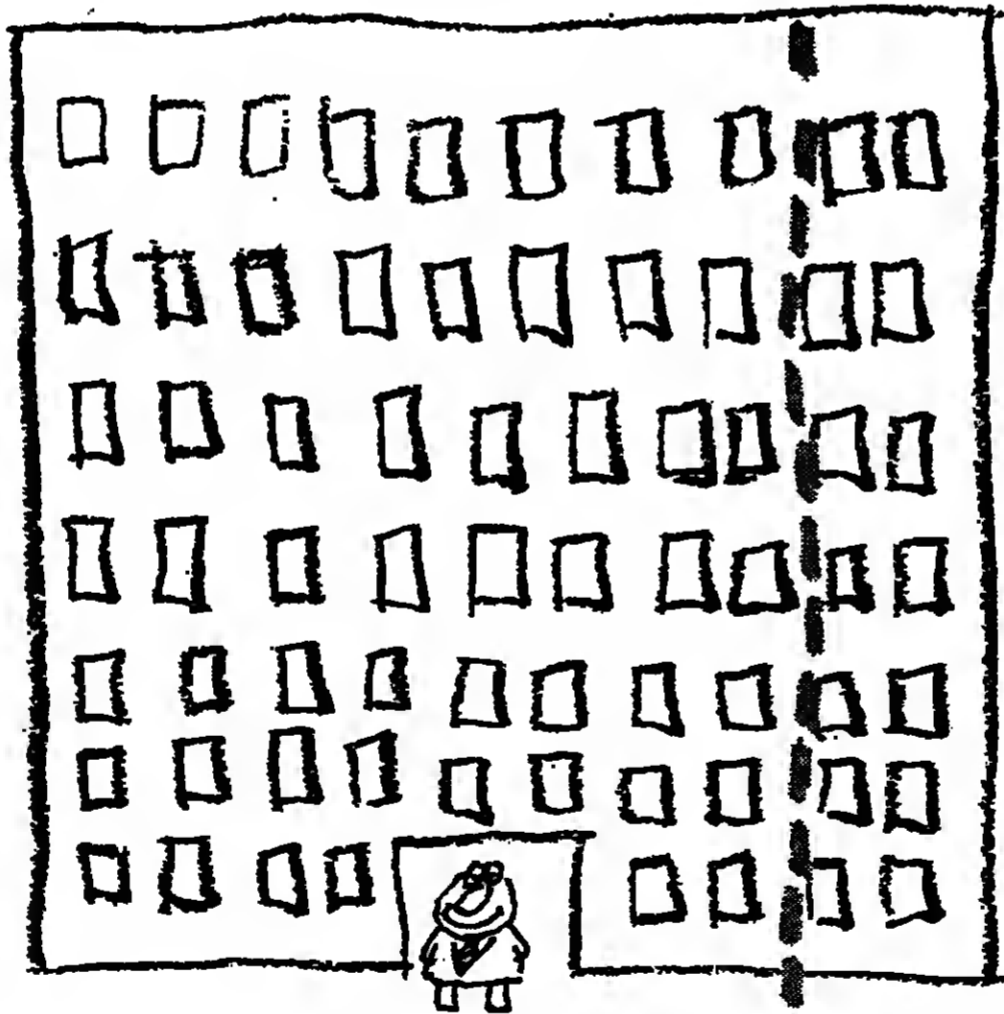
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Venture Capital 5

How to bridge the great divide

SUSAN LLOYD of Venture Economics has this explanation for why things are stirring so slowly on the UK corporate venturing front. "In large corporations strategic decisions are just not taken quickly. The whole process is so slow. Interest is developing but it is going to take time."

The contrast with, say, decision-making by pension funds is stark: there, managers are well used to evaluating investment proposals rapidly. Return on investment is the major criterion and the experienced fund manager will quickly have a feel for any company's prospects.

For corporations, however, there are many more reasons for becoming venture capitalists than making money. Corporate venturing has to be an inextricable part of corporate strategy, whether to put money into a particular company or project is essentially a tactical matter.

There may even be confusion about what is meant by corporate venturing in the first place and there is certainly some about the best way to go about it. In corporate venturing, a company or corporation, usually large, takes minority equity stakes in other companies that are usually small, entrepreneurial, and heavily involved in new technology.

What the emergent company makes, or is trying to develop, will usually have some compatibility with the corporate venturer's present or intended activities. The corporate venturer may view an investment as part of its research and development programme. It may see corporate venturing as the first step towards acquisition of new subsidiaries, technology or products. It will certainly want to make money on its investment.

There are three ways to join in: the corporation can search for likely companies and invest directly; it can set up a venture capital fund of its own and appoint its own people to manage it; or it can invest in independently managed funds, using their experts to find and assess likely prospects.

These are the options that have emerged in the U.S., where large corporations have been

steadily increasing their commitment to corporate venturing during the last few years. The whole process has highlighted what may be an unbridgeable divide between big business and small business, with professional venture capital fund managers well placed in the middle to observe both sides.

Many corporations have appeared ponderable, slow-moving, conservative and yet still wanting quick results. The small companies they invest in have appeared to be the opposite. They often have an ability to live with the longer time-tables needed to develop new technology, while not worrying about it.

Conflict is almost inevitable and this is a principal reason why professional fund managers advise against two do-it-yourself

Corporate venturing

IAN HAMILTON FAZEY

approaches to corporate venturing—direct investment or setting up your own fund. Self-interest on the part of fund is another reason.

The fact is that large corporations do not mix easily with small companies. Research directors develop what has become known as a "not invented here" syndrome and try to kill promising projects. Entrepreneurial attitudes grate with those of corporate planners. Each side dismisses the other over the speed of decision-making.

Promising trends in the U.S. have seen corporations using corporate venturing not so much for acquisition but as a means of securing manufacturing or marketing rights to new technology and products. Such mechanisms have traded on the natural strengths of the small company to break new ground and the complementary strengths of the corporations in managing mass production and sales.

Apart from proving a valuable tool for corporate evolution and development, these mechanisms

also overcome the major problem rising from full acquisitions—how to motivate entrepreneurs when their companies have been acquired. Many take the money and leave to start something else or live an easy life. The corporation finds itself with a new subsidiary lacking its former driving force.

Corporate venturing has therefore led to fundamental changes in management thinking in the U.S., with nearly every major corporation in most economically important industrial sectors now putting money into some managed fund or another for onward investment in appropriate, emergent companies.

This has seen large corporations and small companies learning to live with the notion of shared equity.

The benefits of mutual self-interest seem to be breaking these attitudes down. How long will it be before British corporations start behaving similarly? Some are already involved—in the U.S.—but the attendance list at a recent conference on the subject run by Arthur Andersen, the accountants, and Venture Economics, the information specialists in the field, suggests that board papers are probably being written now for directors to consider the implications.

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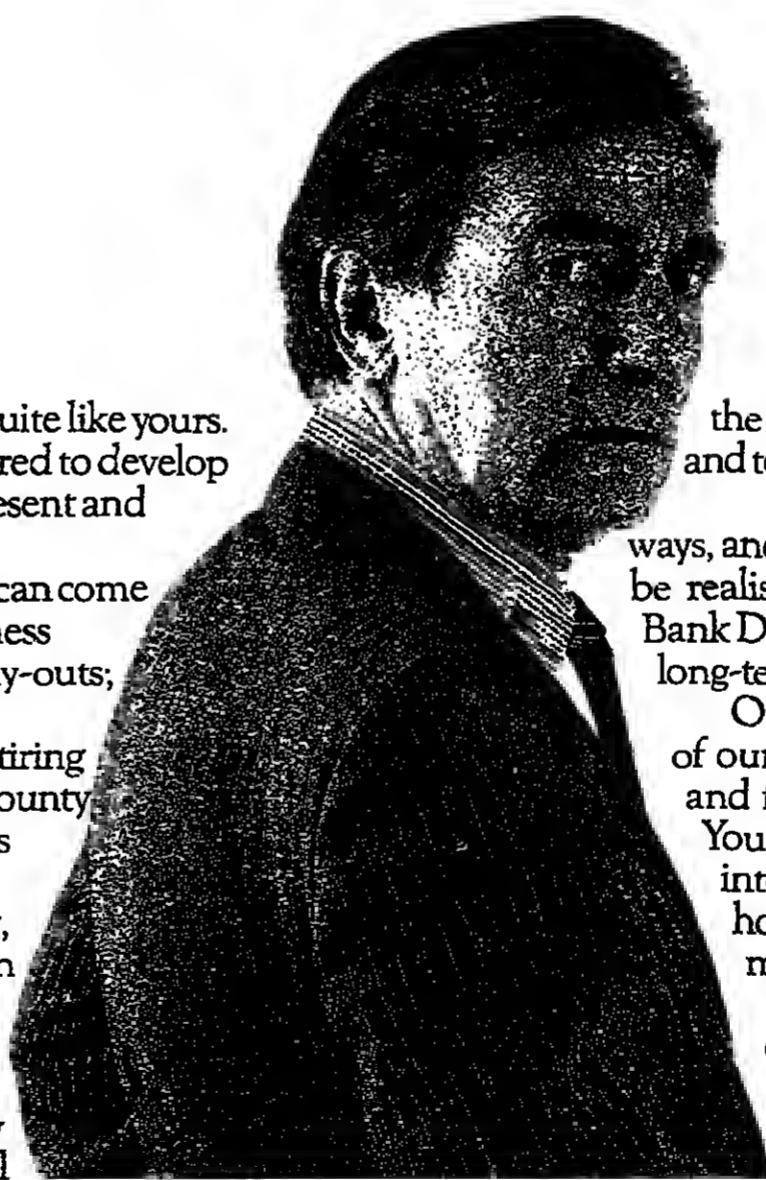
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Slowdown but City enthusiasm remains

Management buy-outs

TIM DICKSON

IN PUBLICITY terms at any rate 1984 has been a good year for management buy out.

Following the first-ever flotation of a bought out company in the autumn of 1983—the computer maintenance group DPCE—several others have achieved a Stock Exchange listing in the last 12 months.

Sarsons Technology, bought off Redland a couple of years ago for £5.4m, carried a price tag of more than £23m when dealings started earlier this year (though the price has since slipped). Some international, the former electrical engineering division of Stone-Platt, came to the market in a blaze of glory in September, and Wardle Stores, the old Bernard Wardle backed by Hill Samuel and Electra in a £5m buy out from Graham Ferguson Lacey's NCC in 1982, reappeared in the public gaze earlier this month with a capitalisation four greater at just over £20m.

Sarsons, Stone and Wardle Stores are, of course, exceptional, but their success will have encouraged the many management teams in the UK which continue to dream of controlling their own businesses.

Management buy outs—the name is recent, the phenomenon is not—began to capture the imagination from 1980 as the recession put pressure on large chunks of British industry and forced major companies to divest their more peripheral activities.

Managers in some cases saw an opportunity to secure their independence and, freed from the burden of head office overheads, a chance to run their businesses more efficiently and more profitably.

The signs are, however, that the spectacular increase in "buy out" activity of the last few years has now levelled out, or even fallen away.

Says Roger Brooke, chief executive of buy out specialist Candover Investments: "We have only done a couple of classic management buy outs this year, though we have also backed a couple of management teams hoping to repeat in a new company what they have done successfully as employees."

The Financial Times publication Mergers and Acquisitions for 1983, meanwhile, lists almost 80 management buy outs recorded in the FT in that 12-month period, with only two months of the current year to go the FT has recorded just over 50 management buy outs. County Bank, an avowed buy out enthusiast, has completed

four deals worth £2m this year, compared with ten worth £5m in 1983, and ICFC which does more individual buy outs than anybody else, also reports a significant drop.

This picture is confirmed by Mike Wright and John Coyne of the University of Nottingham. They, nevertheless point out that more unpublished deals are being done through the clearing banks, through local enterprise boards, Business Expansion Scheme funds and local authority industrial development divisions.

Management buy outs are very much here to stay, though in future they are more likely to be seen as one of a range of options for major companies and management teams.

Enthusiasm in the City of London is still widespread, a point confirmed by a new survey of over 100 financial institutions in this year's Special Report by the Economist Intelligence Unit (EIU). More than 40 responses were received, displaying keen interest in this form of financing than ever before.

Another trend picked up by Wright and Coyne is traditional institutions' preference for the bigger deals and the interest which has been generated in Continental Europe. Paribas and Banque Nationale de Paris, for example, have both set up management buy out subsidiaries.

The advantage for investors is that if all goes well, a remarkably quick turnaround can be achieved. Assets bought at a discount can be made to perform by the right management team and, freed from often expensive group overheads, a loss-maker can quickly show healthy profits.

This formula has proved an attractive proposition for a venture capital fund eager to show quick performance. There are, of course pitfalls—high debt to equity ratios, the illusion of stock prices and management inexperience or gaps—but while growth may be less exciting than that of some start ups, the casualty rate is obviously a good deal lower. ICFC puts it at one in seven, compared with one in three for new companies.

With the growing maturity of the buy out phenomenon, an increasing number of deals these days are being negotiated from a position of strength.

This means that management teams are paying a fancier price for their independence than they would have done three years ago.

"West Midlands engineering assets sold at a 45 per cent discount in 1981 are in some cases going for a 5 to 10 per cent premium these days," says Sir Coyne of Nottingham University.

Venture Capital 6

Profile: Lionel Anthony

Putting a foot in both camps

By Tim Dickson

LIONEL ANTHONY is best known from his days at the National Coal Board, where he worked for 22 years and where he was deputy director-general of the NCB pension funds responsible for direct industrial investment. From 1977 as managing director of CIN Industrial Investments and other companies set up for special investment purposes, he was responsible for £200m invested in, inter alia, 120 unquoted UK companies.

Anthony set up Causeway Capital in November last year with Mr David Secker Walker after a brief and embarrassing interlude with Cayzer Gartmore. (Having tempted Anthony away from the NCB, Cayzer Gartmore's parent British and Com-



Lionel Anthony director of Causeway Capital.

monwealth Shipping changed its venture capital plans). Causeway has the unusual distinction of having recently raised around £11m from various pension funds and a further £1.65m from individuals for a Business Expansion Scheme (BES) fund. Few management groups have tapped both markets.

Anthony's partner Secker Walker was a director of N. M. Rothschild for 11 years—he was ultimately vice-chairman—and for seven years was a director of a U.S. venture capital fund managed by a Rothschild associate company in New York. He was managing director of Cayzer Gartmore from September 1981 until his resignation last year.

Continental Europe makes up for lost time, reports Charles Batchelor

Taking a decentralised approach

Continental Europe has for a long time lagged behind Britain and the U.S. in the venture capital field but there are now signs that governments, investors and businessmen in search of funds are realising the potential of this form of capital.

The European Commission has encouraged the establishment of the European Venture Capital Association (EVCA) to promote venture capitalism and ensure a smooth flow of information on developments in the sector. Meanwhile ten leading European industrial companies, including such names as Volvo, Fiat, St Gobain, Philips and Bosch, are setting up a trans-European venture capital organisation, known as Euroventures, with a target capital base of \$100m. Euroventures, which is based in Amsterdam, was the idea of the 30-strong Round Table of European Indus-

trialists, comprising the chairmen and presidents of major companies. It intends to set up satellite funds in a number of European countries to be funded on a three-way basis by Euroventures itself, a local corporate banker and by banks and other financial institutions.

This decentralised approach will, it is hoped, avoid the difficulties which killed two previous attempts to set up pan-European schemes—European Enterprise Development and Scientia. Euroventures plans to start work in January 1985 and its board and chief executive are to be appointed in a few weeks.

Venture capitalists in Europe face the same barriers as many other business enterprises—a fragmented market with differing national regulations, tax incentives and business cultures. EVCA, based in Brussels, is to help provide advice to the European Commission on directives intended to harmonise the rules governing venture capital schemes.

Mr Robert Ceurost, EVCA's secretary-general, discerns a growing interest on the part of venture capitalists in Europe to invest in the area. Previously many looked to the U.S. as a target for their funds.

EVCA's 40 or so full members had nearly 25m Ecu (\$12bn) worth of funds available at the end of 1983, of which about half had already been invested in more than 3,000 companies.

The path to a uniform European environment for venture capitalists is unlikely to be a smooth one however. Already plans for a 100m Ecu (\$50m) European Innovation Loan, intended to contain a number of proposals to make life easier for the borrower, have run into difficulties. Resistance to the idea from Britain and Germany has delayed implementation of the scheme.

At the national level new venture capital funds are being established and countries such as Germany, France and The Netherlands

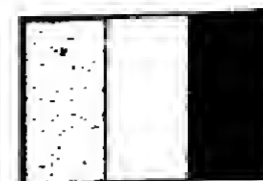
are beginning to reduce the lead built up by the UK, Sweden and the U.S.

A growing awareness of the opportunities provided by equity capital has led to increased interest throughout Europe in second and even third tier stock markets. These less formal offshoots of the main stock markets offer a handy means for entrepreneurs and investors to realise part of their capital gain.

The lower level of regulation means these markets provide a quicker and cheaper exit route though they have yet to be tested by a bear market.

The idea of a European Unlisted Securities Market traded in Ecu and based in, say, Luxembourg, has been mooted. But the pull of established markets may prove too strong. Two Dutch companies have recently obtained a listing in London—one on the USM and the other on one of the two competing over-the-counter markets.

Small businesses back in favour



France

PAUL BETTS

VENTURE CAPITAL has become one of the buzz phrases of French industrial policy. The Socialist government has now firmly set its sights on encouraging the development of new small and medium-sized industries, especially in high-technology sectors.

This is a departure from the original policy of the Socialists when they came to power three years ago. At first, the main emphasis of industrial policy was on nationalisation of the country's large industrial groups which were to act as locomotives for the rest of industry. However, in the last two years, there has been a marked shift towards the small and medium-sized business sector.

In the past six months various packages of measures to help accelerate the creation of small businesses in France and promote the concept of venture capital have been announced by the government. The measures to help accelerate the creation of small businesses in France and promote the concept of venture capital have been announced by the government.

M Jacques Delors, the former French Economy Minister who stepped down this summer to

become (from January) the new president of the European Commission, emphasised early this year that one of the weaknesses of France's industrial system is the lack of adequate links between the university world, research and enterprises compared with the associations forged by many of France's main trading partners.

The government has thus sought to create "bridges" between academic institutions and the business world. It has also encouraged the setting up of so-called technopoles campus where businesses are linked with research institutions.

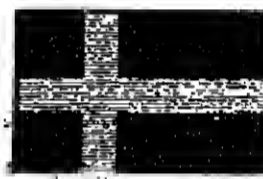
Indeed, some major French higher university institutions, like the Ecole des Mines of Paris, have set up organisations to market their research facilities. M Pierre Laffitte, director of the Paris Ecole des Mines, is also the founder of the large science park near Antibes in the south of France called Sophia Antipolis.

Some of France's large industrial groups have also been active in venture capital operations. Among these is the Elf-Aquitaine state-controlled oil group which has invested in venture capital both in France and abroad. Both the Renault and Peugeot car groups have also shown interest in high-technology ventures with applications in the motor industry.

The French nationalised banking system for its part has been answering the government's call for greater support of venture capital. Many banks have been investing in venture capital both in France and internationally.

For example, the large Suez nationalised banking group has just set up a new venture capital subsidiary called Suez Promotion whose aim is to take minority shareholdings in small and medium-sized enterprises being set up. Suez this year also set up a venture capital operation with the French Industrial Development Institute.

More cautious view is being taken



Sweden

DAVID BROWN

SWEDEN'S RELATIVELY young venture capital market is in the midst of a transition, as the heady days of optimism give way to a period of more experienced caution.

It was not until 1982 that the market took off among private investors. It had its roots in the late 1970s, with the formation of three Government-owned regional development companies acting as minority partners in small start-up ventures.

Then, changes in wealth and double taxation rules, as well as new incentives for the flagging Over-the-Counter market, instituted by the previous non-Socialist Government, helped spur a new market. It now involves some 50 companies with a total capitalisation of some SKr 1.4bn (\$175m) according to a study by Prof Christer Olafsson of the Linköping University Management and Economics Department for the Swedish National Industrial Board.

Of these, some 20 are regionally based concerns which tend to take majority holdings in small-to-medium-sized companies. About 20 are nationally based firms, owned by insurance companies, pension funds, investment groups and to a much lesser extent industrial firms, and working with about SKr 800m in mainly minority holdings.

The biggest area of investment has been high technology ventures (accounting for about 40 per cent of the total placements by the larger nationally based companies), according to Dr Olafsson.

"Two years ago, there was a tendency to go right into start-up companies — two-thirds of which were less than five years old. Now we've seen some big bankruptcies and people are starting to have a much better idea of the risks and demands on management," says Dr Olafsson.

Mr Krister Ahs, who is managing director of Venap, says: "What we're starting to see is more consortiums, with two or three venture capital companies going into a single investment."

Mr Ahs, who is in the middle of a fund-raising exercise, states that: "A year ago, when the market was at its peak, it would have been much easier to raise SKr 50m. On the other hand, investors today are more aware of what they're getting into."

Right atmosphere for growth



West Germany

JONATHAN CARR

THE West German venture capital scene has been transformed beyond all recognition in the last year or two. Coming almost from nothing, there are now around 30 venture capital outfits with an estimated DM 700m of investment funds available for young entrepreneurs — above all in the high technology field.

That is the good news — but it has to be slightly qualified. Of that DM 700m available only a very small share — experts estimate a maximum 10 per cent — has actually been invested. Of the hundreds of schemes put before the venture capital companies, the vast majority end up in the waste paper basket.

There is plenty of "capital" available and a lot of "venture" on display. What is lacking is experience and management skills.

That is not surprising. For a long time there have been weighty reasons of company structure and business psychology in Germany which have told against the rise of a thriving venture capital market.

For example, roughly three-quarters of registered German companies are family-owned; most hated the idea of "going public" with a stock market listing and financed themselves mainly with bank loans, not equity capital.

The recession at the start of the 1980s, with the stagnation for many under-capitalised companies of business downturn

and high interest rates, showed the danger of that approach.

There is now a far greater awareness of the need for injections of capital rather than credit—both for existing small and medium sized businesses and for entrepreneurs trying to start up their businesses.

Hence the increase in the number of new stock market entrants (11 last year and around 20 this year) and the mushrooming of venture capital outfits.

Hand in hand with that development has gone a very gradual change in the "security at all costs" mentality among young Germans—and their potential suppliers of finance. In the post-war decades it was far from common for, say, a young scientist or engineer to throw up a secure job in a major German company to strike out on his own.

He could not rely on the banks to support him and the social stigma attached to failure

would be high (much higher, for example, than in the U.S. where individual initiative in itself counts for a lot).

Little by little a somewhat more daring attitude is emerging, encouraged by the change to a centre-right government in Bonn in 1982 after 13 years of centre-left rule. Major banks, which long argued that "risk" enterprises were not suitable investments for customer funds, are now supporting several of the new venture capital outfits.

Big companies are becoming more tolerant of personnel "spin-off" (for example, Siemens which has helped one of its former research teams to set up on its own with the aid of venture capital funds). Even the ultra-conservative insurance companies have gingerly put a toe into the venture capital waters.

Needed now is more expert guidance at all stages of the venture process: for the budding entrepreneurs with good ideas but no experience in drawing up a viable business project; for those who have just begun their own companies but still lack key management skills, for example in sales and marketing; and for those in successful operation for a few years who are considering going to the stock market.

The venture capital seeds have been planted and the atmosphere is about right. But the garden needs a lot of tending.

Profile: Geoff Taylor

Following "hands on" policy

Geoff Taylor came back to Britain in 1980 after 16 years in the U.S. to head up the division at Investec in Industry (31) new known as 31 Ventures. Whereas ICF tends to be a "passive" investor in the companies it backs, 31 Ventures prefers to adopt the American "hands on" approach and specialises in high growth companies in areas of high technology.

An Oxford engineering graduate, Taylor joined English Electric Aviation in 1959 where he went on to sell guided weapon systems from the company's marketing department. In 1964 he was transferred to the Los Angeles associate of his then employer Ampex UK and in the same year joined another LA company Data Products Inc.

Between 1966 and 1974 he held posts with Electric Memories and Magnetics Inc and Vector General Inc in between helping co-found a computer products supplier called Fertec.

In 1974 he re-joined Data Products where he remained until 1980.

The two best-known companies in 31 Ventures' portfolio are LSI Logic, the U.S. semiconductor business, and Rodime, the disc drive manufacturer in Scotland which Taylor played a key part in setting up. At the end of March this year the division had a total of 32 investments, 18 in the UK and the balance in the U.S.

"Our aim is to emphasise our UK investments programme," says Taylor. "But it is noticeable that we are finding more opportunities for our type of investment in the U.S. than in the UK."

31 Ventures has now opened an office in California to monitor West Coast investments and look for new opportunities.



Geoff Taylor head of 31 Ventures.

By Tim Dickson

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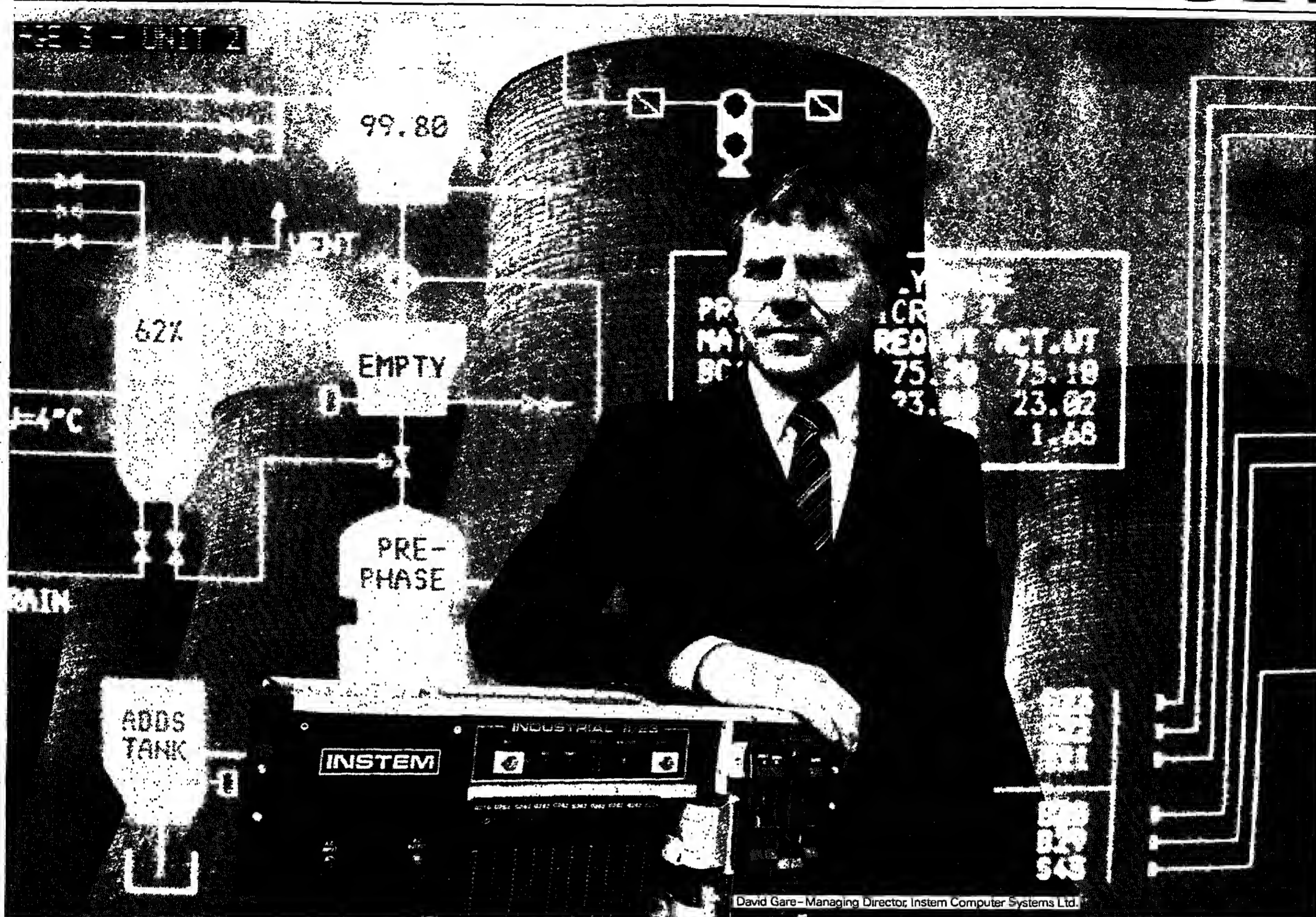
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THE ENTREPRENEUR



David Gare—Managing Director, Instem Computer Systems Ltd.

As the end of 1982 approached, physicist-turned-businessman David Gare realised he had a big problem.

Although he was managing a highly successful Staffordshire computer systems company, he felt his American parent, Kratos Inc., were becoming increasingly remote.

They had problems of their own, and couldn't spare enough time for the young, growing offspring far away from home.

Gare proposed a management buy-out. Kratos were receptive, but imposed a time window on the deal. They told him that if he came up with a proposition within one month they would consider it. That was two weeks before Christmas.

He needed a financial partner with quick reflexes.

Gare says, "I wanted someone who could work in the fastest, most flexible way possible—and also be able to negotiate with an American parent with an understanding of how the Americans thought. I called the five biggest financial companies of different types I could think of, just to get a reaction."

There was no shortage of suitors.

Four of the five could have done a deal. Two of them wanted Gare and his colleagues to take what they felt was an unacceptably high immediate personal risk in fees for putting the deal together. Another couldn't react in time.

That left Citicorp Venture Capital.

Unlike the others, they would not only put up the money, but also offered to take on the negotiations with the parent company, which is often difficult for current management to handle themselves in a buy-out situation.

"Ultimately, I chose Citicorp because they were the people most likely to conclude the most satisfactory deal in the time available," says Gare. "Their whole style is to make it easier."

Crucially, the specialised engineering group, Dobson Park Industries plc, required little persuasion to take a major share in the new company—now called Instem—because they saw a chance to gain ready access to knowledge in computer-based applications, plus a useful stake in a growth business.

With its ability to custom build high quality electronics in volume quantities, today Instem is a supplier of computer related products and systems for data acquisition, and monitoring and control to important sectors of the UK economy—including energy, water steel—as well as science-based multinational companies.

Are you an entrepreneur? Here are some things you should know about Citicorp Venture Capital (CVC).

★ Since starting up in the UK three years ago, we have invested in over 30 companies which now have a total annual turnover of over £230 million.

★ We undertake two main types of venture capital financing:

"Replacement Capital" to buy-out existing shareholders and substitute a new capital structure.

This includes management buy-outs; acquisitions and mergers; and making a public company private.

"Expansion Capital" to finance the further development of a successful company, particularly during the early phases of accelerating growth.

★ We are planning to invest over £100 million in venture capital in Europe in the coming years.

★ We look only for a minority equity holding, because we believe that the operating management should be motivated by substantial equity ownership.

★ We are more interested in the future cash flow potential of a company, and attach less importance to the "borrowing base," often called "security." Our aim is to invest in companies which will become successful.

★ Unlike more traditional sources of finance, we are attracted to a business by the management's abilities and its market potential, not purely by financial considerations.

★ We are prepared to take a long term view of

investments, and will help determine the exit route most suited to the requirements of the company: the USM, the sale-on of the company, a repeat buy-out of our equity by the management, or a Stock Exchange listing.

★ CVC's professional staff come from general management, technology, and manufacturing, as well as financial backgrounds. They are therefore able to understand the entrepreneur's business and investment needs, and can contribute continuing assistance and expert advice on the company's development.

★ We have access to the international network of Citicorp, one of the world's largest financial institutions, with European venture capital offices in Paris, Frankfurt, Milan and London.

★ For particularly large investments, we can assemble and lead a syndicate of investors.

"Senior CVC executives give the impression they are professionals in a rather amateurish market. Their 'modus operandi' is based on the phenomenally successful venture capital offshoot of the mighty Citibank."

Financial Weekly

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